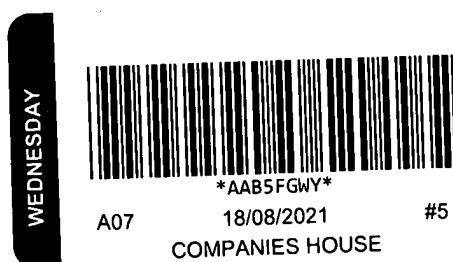


Stonegate Pub Company Pikco Holdings Limited
Annual report and financial statements
Registered number 12086428

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Annual report and financial statements
For the period 5 July 2019 to 27 September 2020
Registered number 12086428



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Company information

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Strategic report

The Directors present their strategic report for Stonegate Pub Company Pikco Holdings Limited and its subsidiaries (together “the Group”) for the 52 weeks ended 27 September 2020. Stonegate Pub Company Pikco Holdings Limited was incorporated for the purpose of becoming the top UK registered company in the Stonegate Group.

On 3 March 2020 the Group completed the acquisition of the entire share capital of Ei Group Limited. At that point, Ei Group owned 4,009 pubs, increasing the Group’s pubs to 4,770 at that point. In order to complete the purchase, the Group drew down various new financing debt facilities to fund both the acquisition of the shares and repay the existing Ei Group debt. Note 21 sets out the Group’s borrowing activities during the period.

Subsequent to this acquisition, Stonegate is now the largest pub owning company in the United Kingdom, with 4,708 operating sites at the period-end.

Stonegate operates its managed pubs within a wide variety of formats: from community and high-street pubs, through branded bars, to country inns and late-night venues. Stonegate’s goal is to deliver fantastic customer experiences and has an extensive selection of formats, extended with the addition of the Ei Group estate.

Classic Inns

Classic Inns are individually branded pubs located largely in suburban centres, offering a premium pub experience, with a varied high-quality food and drink offering.

Proper Pubs

Proper Pubs are mainstream traditional local community pubs offering food and drinks at value prices. These pubs cater to a wide variety of customer occasions.

Town Pub & Kitchen

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

Slug and Lettuce

Slug and Lettuce are branded high-street bars, which are known for cocktails, premium food and an atmosphere throughout the day and night.

Venues

Venues encompass a diverse range of late-night venues for late night revellers. Branded sites include Walkabout, Reflex and Popworld.

Common Room

Common Rooms are distinctive pubs targeted at students and like-minded adults, they offer a “third space” for any time of the day or week, creating zoned areas to eat and drink, socialise, work and play. They feature coffees, craft ales, street food and sport.

City Taverns

City Taverns are a premium format, operating predominantly in London. Offering drinks, food and sports.

Be At One

Be At One are cocktail themed bars serving high quality cocktails, providing excellent service and a great party atmosphere.

Craft Union

Craft Union pubs operate a value drinks-based offer at the heart of their communities. Their focus is on ensuring a good time for all who visit by offering excellent sports viewing and a range of weekly entertainment fixtures.

Strategic report (continued)

In addition to its managed pubs, Stonegate now has a considerable leased and tenanted estate, in which the Group works together with its publicans to help them deliver great consumer experiences to their customers. Each publican has the remit to run their business how they chose, but they have a wealth of experience and support behind them provided by the Group to help them achieve success.

Vision and Values

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

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

Strategy and Business Model

Stonegate has always been very clear in its desire to develop formats and retail offers to meet the needs of current and future customers in order to maximise its profitability. The Group's strategy has evolved with the purchase of Ei Group such that it now has access to a wider portfolio of properties and broader template of operating models such that it can realise the greatest value from each site by applying the most suitable retail format and most appropriate operating model.

The Group's operating strategy is to grow through increasing our exposure to the more attractive categories and segments of our markets, through:

- intelligently investing in its pub estate to maximise site profitability;
- aligning its formats to benefit from emerging consumer trends; and
- delivering operational improvements across its pub estate to drive margin growth.

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

Business review

The results for the Group for the 52 weeks ended 27 September 2020 are shown in the consolidated income statement on page 21. Pre-exceptional operating loss for the period was £34 million (2019: profit of £48 million). Post-exceptional operating loss for the period was £458 million (2019: profit of £18 million). Loss before tax was £765 million (2019: £26 million). The financial position of the Group is set out in the consolidated balance sheet on page 23 which shows net assets of £98 million (2019: net liabilities of £8 million). Net increase in cash and cash equivalents in the period was £286 million (2019: decrease of £8 million).

Strategic report (continued)

Business review (continued)

During the period, the Group acquired Ei Group Limited on 3 March 2020. Ei Group was the largest owner and operator of pubs in the UK with over 4,000 properties across England and Wales in three business units: Publican Partnerships (leased and tenanted estate), Managed Pubs (unbranded Craft Union and Bermondsey formats and managed JV investments) and Commercial Properties (free-of-tie and non-pub properties). The directors believe that there is strong strategic rationale for combining Stonegate and Ei Group, with complementary portfolios and skills. With greater scale and diversification, the combined group will be better positioned to compete effectively to the benefit of customers, tenants, employees and other stakeholders.

Subsequent to the purchase of Ei Group, on 20 March 2020 the Government enforced the closure of all of the Group's businesses in line with the UK's defence against the Covid-19 pandemic. A three-month full closure ensued, with pubs only able to reopen from 4 July 2020, at which point the Group was able to open the vast majority of its sites, with the exception being its late night venues.

During the closure period the Group's primary focus was to preserve cash and support its employees and publicans. Stonegate took advantage of the Government's furlough scheme with c.95% of Group employees being furloughed and receiving 80% of their pay during the closure period, whilst it supported its publicans by offering rent concessions and/or trade credits that could be used to restock once reopened at a cost of £32 million. During the period £62 million was recognised within other income in relation to the Coronavirus Job Retention Scheme; £4 million in relation to the Government's Eat Out To Help Out scheme and £3 million was recognised in relation to government grants.

On reopening, Stonegate continued its robust control over cash and utilised the flexible furlough scheme in order to meet business demands and protect jobs, whilst ensuring that its sites were as safe as possible for its employees and customers. During the year the Group spent £1 million on screens, protective personal equipment and other Covid-19 protection measures. The Group welcomed the 'Eat Out to Help Out' scheme introduced by the Government during the summer to encourage customers back to the safe environments it had created and the Group was pleased that none of its managed sites received any Covid-19 related fines.

Subsequent to the period end, the Group has endeavoured to open as many sites as it is able to do so safely within the tiering system that was introduced and now, like the rest of the UK hospitality industry, is preparing itself to welcome customers back to its sites once the current national lockdown ends and the pandemic is again under control.

Group Key Performance Indicators

Below are the key performance indicators (KPIs) for the Stonegate group of companies at year end which the Board examines on a monthly basis. These have been significantly impacted by the Covid-19 pandemic. In addition, KPIs currently exclude the impact of any of the Ei Group acquired businesses since these would not be like for like at the current year end.

	2020 52 weeks	2019 52 weeks
Financial KPIs – Group		
Managed Drink Sales Growth (like for like)	(39.3)%	2.1%
Managed Food Sales Growth (like for like)	(38.4)%	(0.5)%
Managed Turnover Growth (like for like)	(38.3)%	1.7%

Like for like represents aggregate drink sales, food sales or turnover compared to the previous comparable period, made at 710 managed sites that were trading throughout the current and previous period. As a result of the Covid-19 pandemic and the closure of the estate for three months of the year, there has been a significant downturn in the Group's financial KPIs. In addition, the Group has decided not to disclose Return on Investment as a KPI in the current year since the impact of the pandemic makes this a meaningless and non-comparable measure.

Strategic report (continued)

Adjusted EBITDA Reconciliation	52 weeks ended 27 September 2020	52 weeks ended 29 September 2019
	£m	£m
Operating profit before depreciation, amortisation, impairment, revaluation and loss on sale of non-current assets (page 17)	74	100
Acquisition costs	36	3
Restructuring and integration costs	12	6
Surrender premiums	1	-
Discretionary exit bonus	-	16
Management fees	2	2
Pension scheme service costs	1	1
Losses on disposed/non trading sites	2	2
Other non-recurring costs	2	4
IFRS 16	(71)	-
Adjusted EBITDA	59	134

Adjusted EBITDA represents profit before finance income, finance costs, taxation, depreciation, amortisation, impairment, and the other items shown above. Other non-recurring costs include certain legal fees and fees in relation to HMRC enquiries. The impact of IFRS 16 has also been included to aid comparison to the previous period which did not include such adjustments. In relation to those leases under IFRS 16, for the 52 weeks ending 27 September 2020, the Group's operating profit before depreciation, amortisation, impairment, revaluation and loss on sale of non-current assets improved by £71 million as operating lease rentals are no longer included in operating profit. 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 26. The directors consider the adjusted EBITDA provides useful information about the Group's performance and aids a more effective comparison of the Group's trading performance from one period to the next and with similar businesses.

Non-financial KPIs

As well as providing a fantastic experience to our customers, Stonegate is also committed to a high standard of health and safety. Therefore, the Board conducts customer research on an on-going basis, and monitors complaints received and internal health and safety audit results.

Managed sites are assessed on a regular basis on 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 twice yearly audits as well as additional technical support. 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.

The 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.

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 86.3% (2019: 85.7%).

Strategic report (continued)

Financial Position

The financial position of the Group is set out in the consolidated balance sheet on page 23 which shows net assets of £98 million (2019: net liabilities of £8 million). Closing cash and cash equivalents, including current borrowings, were £294 million (2019 £8 million) and non-current borrowings were £4,276 million (2019: £739 million).

The Group is financed by predominantly long-term debt in the form of senior term loans, securitised debt and bank borrowings, denominated in both sterling and euros. The short term bridging financing that was drawn in the year to complete the acquisition of Ei Group has all been refinanced before the period end.

Principal risks and uncertainties

The key risk the Group has faced in the current year has been driven by the Covid-19 pandemic and the impact having an estate of closed pubs has on the Group's ability to continue as a going concern. This is discussed in detail below, together with the key industry, operational and financial risks faced by the Group.

Covid-19 pandemic

On 20 March 2020 the UK Government enforced the first closure of all pubs as part of the efforts to control the Covid-19 pandemic, followed by a second shorter period of closure from 5 November 2020 and a third period that commenced on 5 January 2021 and is ongoing. In addition, during the period of being open, the Government enforced a tiered system across the country such that in those areas in the highest tiers, all pubs were closed whilst there was some ability to open in lower tiers. Given the rapidly evolving nature of the situation it is difficult to quantify in total the impact Covid-19 could have on the financial performance of Stonegate, however, it is expected there will be a significant reduction in performance impacting the next 12 months. The Group has been working proactively and continues to do so to protect cash flow through a number of actions including cost reduction, accessing benefits from the Government support schemes including the furlough scheme, the business rates relief, HMRC deferment of indirect tax, postponement of refurbishments and other capital expenditure projects.

Although all sites are currently closed, the vaccination programme has begun which provides reassurance that a reduction in restrictions is in sight and we expect to gradually see sales return to more normalised levels as consumer confidence increases and certain safety measures are relaxed, however it is noted that the speed of the recovery is uncertain and therefore there continues to be a risk to liquidity. However, Management's cash flow forecasts, that are based on prudent modelling and taking into accounts learnings from the period from March 2020 indicate that the Group has sufficient funds to meet its liabilities as they fall due.

The events and future uncertain effect on trading arising as a result of the Covid-19 outbreak indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern (further details have been provided in note 1).

Industry specific

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

Risks to the Group's day to day trading include deterioration in consumer spending prompted by any downturn in the economy together with potential shifts in consumer spending patterns. The fundamental need for the UK consumer to socialise will always remain, even after the pandemic, however the changes in behaviour are rapid. Therefore, there is a risk to market share if the Group is not positioned to react to these changes. The Group's Segment Strategy Teams, involving marketers, operators and finance, meet regularly to ensure segments respond quickly. The launch of the ordering and pay app in all of our managed sites during July 2020 is an example of this to support table service only.

Strategic report (continued)

Principal risks and uncertainties (continued)

The Group is subject to various areas of regulation, particularly with regards to the sale of alcohol. This can include licences, permits, late night levies and various restriction orders. Stonegate works closely with the Police, Local Authorities and trade bodies to ensure we remain compliant with legislation. In addition, since the acquisition of El Group, Stonegate is now also regulated under The Pubs Code, which governs and monitors the relationships between the largest tenanted pub companies and their tenants. The Group has support teams and policies in place to ensure that its dealings with its pubicans are Pubs Code compliant and that any Market Rent Only requests are dealt with in line with the regulations.

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

Now that the UK has formally left the EU, it remains difficult to fully appreciate the impact on the Group whilst we are in the midst of the Covid-19 pandemic. However, initial expectations are that the agreement of a trade deal between the UK and the EU mitigates some of the exchange rate and cost inflation risk. Once we are fully open and trading again it will become more evident whether there is an impact on the ability to employ good labour, although we are not expecting any significant shortages of labour in the medium term.

Group specific

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

Stonegate 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 pubicans. 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 works closely with its key suppliers and distribution partners to ensure good working relationships. In addition, a disaster recovery and business continuity plan is established to mitigate such risks.

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

The Group's operations are reliant on its information technology systems for business processes, accounting, reporting and communication. There is a therefore risk to business operations if there is a critical IT systems loss caused by failure or a security breach. The Group operates offsite recovery capability, with back up data plans in place. Systems are protected by anti-virus software and firewalls, which are regularly kept up to date.

In order to deliver the fantastic customer experience, it is important to attract, develop and retain the best employees for our managed pubs and our support centre and also the best pubicans 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 course for our pubicans.

Financial risks

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.

Strategic report (*continued*)

Principal risks and uncertainties (*continued*)

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. Since the prior year end the Group's debt structure has changed dramatically with both a significant increase in size of debt but also in complexity. The debt now comprises borrowings in both sterling and euros and at both fixed and floating rates of interest. There exist four main covenants that must be met and against which Management monitor and forecast performance. The Covid-19 pandemic meant that headroom against two of these covenants was significantly reduced during the year such that Management felt it appropriate to take action to avoid any risk of breach. For the Consolidated Net Leverage Ratio within the Revolving Credit Facility document, Management sought a waiver for two quarters such that the EBITDA used in the calculation was fixed at a pre-agreed level whilst in the Unique securitisation, Bondholder consent was sought for an amendment to the Debt Service Cover Ratio covenant allowing current year EBITDA to be substituted for prior year EBITDA for the June 2020 and September 2020 quarters for any pubs closed due to Covid-19. Further detail on these covenants can be found within note 22 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. This has become even more important during the pandemic as the focus on cash preservation has increased.

Stonegate's credit risk is primarily driven by the credit terms awarded to its publicans. During the March to July closure of pubs, the Group ceased collecting cash from its publicans due to the inherent uncertainty regarding when pubs would reopen. Since the start of July the Group has worked with its publican to agree repayment plans for debt arrears that are manageable for the publicans but also meet the Group's objectives to reduce debt and significant progress has been made.

Further details of the financial risk management objectives and policies are set out in note 22.

Community and the Environment

Responsible Service

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.

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.

Environmental factors

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

Waste and recycling matters

Waste disposal and recycling is an important issue in the pub and food industry. Stonegate partners with Olleco in the recycling of its used cooking oil. Our used oil is refined into a range of products such as industrial oils and renewable fuels. In the year ended 27 September 2020 we collected 622,683 litres of used cooking oil, or 573 metric tonnes (2019: 887 tonnes). This is the equivalent of saving 1,328 tonnes of carbon (2019: 2,038 tonnes).



Strategic report (continued)

Community and the Environment (continued)

Waste and recycling matters (continued)

Stonegate also works in partnership with Veolia Environmental Services for waste collection and recycling services. Veolia offers a range of recycling services to manage our waste streams. On current basis, 99.84% is diverted from landfill and 61.82% is recycled. This is the equivalent saving of 719 tonnes of carbon.

Reducing energy consumption

We continue to manage our energy, with the aim to limit our environmental impact as well as managing cost within the business. We proactively work with third parties, helping us in the management of energy consumption.

During the period we continued the roll-out of smart meters in the majority of our outlets. We will use these to manage usage, to be as efficient as possible to help reduce consumption. Other energy initiatives included smart heaters to regulate cellar temperatures, fridge movement sensors and water scan self-supply management. Work has also been undertaken on Streamlined Energy & Carbon Reporting (SECR) and Energy Savings Opportunities Scheme (ESOS).

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.

Sugar

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

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.

Charitable activities

During the period to 27 September 2020 our pubs have raised £43,000 (2019: £61,000) for several local and national charities. These include Coppafeel, Help for Heroes, Cancer Research UK and Mind. Not only are our pubs involved in charity work, but our pub support team also demonstrated outstanding charitable giving this year and continued a close relationship with the local Luton Children's Hospital, Keech Cottage Hospice. As a principle, all the supplier gifts we receive are sold on a regular basis and all proceeds are given to charity.

Supporting our students

Nationally, Stonegate gave nearly £42,000 (2019: £25,000) in sponsorships to student unions and student sports clubs. Throughout the period we also supported local football teams; netball teams; tennis and rugby teams across the UK.

Strategic report (continued)

Employee Engagement

Stonegate recognises the importance of having an engaged and motivated workforce and the value it can bring to a business. The Group regularly asks its employees to complete an engagement survey. The most recent survey was completed in November 2019 and showed that 93% of employees would recommend Stonegate as a place to work.

Ensuring this level of engagement has been particularly challenging and important this year with the changes brought about following the acquisition of Ei Group and the impact that Covid-19 has had on our usual ways of working and the sheer quantum of employees on furlough at any point in time. Ensuring they feel that they remain part of the Stonegate family and protecting their wellbeing, even whilst on furlough leave, has been a key challenge for the Board and the Group and has meant that normal methods of communication have needed to adapt. The main communication tool during the pandemic for Stonegate to be able to reach those employees working and on furlough simultaneously has been regular CEO recorded briefings which cover key developments and the Group's response to them. The Group has also made available tools for employees to improve their own mental health.

Business Relationships

The Group's key business relationships are with publicans, suppliers and landlords. Maintaining good working relationships has been particularly challenging during the pandemic since there has been a continual need for the Group to balance the strength of those relationships with the need to conserve cash. Stonegate has committed £32 million to supporting publicans during the financial year through rent concessions or trade credits and has confirmed further concession levels subsequent to the year end. The Group has taken advantage of the rent moratorium, but continues to negotiate and communicate with landlords wherever possible, and even though the Group looked to delay supplier payments during the initial lockdown, excellent relationships were maintained such that supply was not disrupted.

Future Outlook

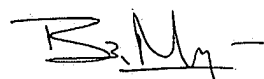
Although we remain in the midst of a pandemic and all pubs are closed, there remains positivity that the vaccination programme will allow restrictions to be lifted as we move towards spring/summer. The Great British Pub has survived for as long as it has because of our fundamental need for social interaction. There is no reason to believe the pandemic will change that and Stonegate is committed to ensuring that it is raring to go, ready to welcome customers back as soon as it is able to do so.

Going Concern

The financial statements have been prepared on the going concern basis. The statement headed "Going Concern" on page 27 sets out certain factors to the Directors' consideration in reaching this assessment.

Approval

The Directors' Strategic report was approved by the Board on 24 February 2021 and signed on its behalf by:



Brian Magnus
Director

Directors' report

The Directors present their report together with the financial statements for the 52 weeks ended 27 September 2020.

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

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

Board of Directors

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

Manjit Dale
Brian Magnus

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 almost 20 years' experience in private equity. Manjit graduated from Cambridge University with an Honours Degree in Economics.

Brian Magnus (Senior Partner at TDR Capital LLP)

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

Senior Management Team

The Senior Management team that make up the Group's Operating Board at year end consisted of Ian Payne MBE (Chairman), Simon Longbottom (CEO), David Ross (CFO), Suzanne Baker (Commercial Director), Nick Andrews (Integration Director), Helen Charlesworth (Managing Director - Managed), Nicola Pryce (Marketing Director), Tim Painter (HR Director), Daniel Wilkinson (Director of Strategy and Business Development) and Nick Light (Managing Director – L&T).

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 CEO of the Laurel Pub Company from its inception in May 2001 through to December 2004 and later Chairman of Bay Restaurant Group Limited and Town and City Pub Group Limited prior to the formation of Stonegate Pub Company Limited in November 2010. Ian started his career in the trade behind the bar of a local pub more than 35 years ago.

Directors' report (continued)

Senior Management Team (continued)

Simon Longbottom (Chief Executive Officer of Stonegate Pub Company)

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

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.

Suzanne Baker

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

Nick Andrews

Nick joined Stonegate in June 2015 as Managing Director of the Traditional Pubs estate and was appointed to Integration Director in March 2020. He was previously brand operations director at Mitchells & Butlers, where he worked for five years. Prior to that, he was Regional Director with Lloyds Banking Group for seven years. Nick originally joined the Bass PLC graduate program before progressing into roles with Bass Leisure Group and Holiday Inns, eventually becoming Director & General Manager of the O'Neill's pub chain.

Helen Charlesworth

Helen joined Stonegate in June 2016 as Managing Director for Branded Bars 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.

Nicola Pryce

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

Directors' report (continued)

Senior Management Team (continued)

Tim Painter

Tim Painter is HR Director of Stonegate Pub Company Limited, responsible for the recruitment, training and development of the Group's 15,302 employees. Tim started his career in food retail with HR roles at Asda and Safeway. He then moved to Thorn UK, where he progressed to be HR Director for a Division of the business. In 2003, Tim was appointed as HR Director for Travel Inn, part of Whitbread plc. During his tenure, Travel Inn acquired and integrated the Premier Lodge business to form Premier Travel Inn. In 2006, Tim returned to food retail as HR Director of Musgrave Retail Partners GB, which managed the franchised convenience brands Budgens and Londis. Tim was appointed HR Director for Stonegate Pub Company Limited in January 2012.

Daniel Wilkinson

Daniel joined Stonegate in April 2015 and has served as Strategy and Corporate Affairs Director since April 2016. He was appointed Director of Strategy and Business Development 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.

Nick Light

Nick joined Stonegate following the acquisition of the Ei Group in February 2020 where he held the position of Managing Director of its leased and tenanted business, Ei Publican Partnerships. Nick has over 30 years of industry experience, having previously worked for Grand Metropolitan, Voyager Pub Group, Unique Pub Company, Colliers and Savills before joining the Ei Group in 2005. He operated as Managing Director of Ei's eastern and southern estates for 7 years before taking responsibility for its entire leased and tenanted estate in 2017.

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

Results and dividends

The loss after tax was £669 million (2019: £25 million).

Employee involvement

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

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

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

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

Directors' report (continued)

Employee involvement (continued)

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

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

Equality and Diversity

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

We strive to create a work environment free of discrimination, harassment and bullying, where everyone is treated with dignity and respect and all employment decisions are based on merit, qualifications and abilities. Stonegate operates a robust grievance procedure which enables employees to raise 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)	51%	49%
All Head Office employees	49%	51%
Senior management team (excluding Board)	68%	32%
Operating Board	70%	30%

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.stonegatepubs.com.

Guidelines for Disclosure and Transparency in Private Equity

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

Directors' report *(continued)*

Section 172 Companies Act Statement

Stonegate's Directors have acted in a way that they considered, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole and in doing so have given regard, amongst other matters, to the following considerations in the decisions taken during the financial period ended 27 September 2020:

- The likely consequences of any decision in the long term;
- The interests of the Company's employees;
- The need to foster the Company's business relationships with suppliers, guests and others;
- The impact of the Company's operations on the community and environment;
- The desirability of the Company maintaining a reputation for high standards of business conduct; and
- The need to act fairly between members of the Company.

The Board has a duty under Section 172 Companies Act 2006 to promote the success of the Company and, in doing so, must take account of the effect on other stakeholders of how it manages the business of the Company, whether these stakeholders are from within the Company, in its group or outside the Company and its group. Throughout the year the Board has kept in mind these responsibilities as it has supervised and monitored the business activities and prospects of the Company and as it has considered, and where appropriate, made decisions relating to strategic aspects of the Company's affairs.

In carrying out these functions, the Board had regard to those stakeholders which it had identified as being of significant importance, as listed below:

- The Company's ultimate shareholder, who benefit from the success of the Company and therefore all business decisions are made by the Board so as to ultimately enhance the medium to long term value of the Company and Group;
- Group employees, who rely on the Group for regular income and job security;
- Customers, who come to the Group's pubs to enjoy drink and food in a safe and enjoyable atmosphere;
- Publicans, who expect to be treated fairly and consistently in their business dealings with us so that they can run successful businesses;
- Suppliers, who we look to form long-term working relationships with in order to harness price benefits for us and demand for product/service for them; and
- Landlords, who rely on Stonegate for a stable and regular income for their properties.

In making their decisions, the Directors consider each stakeholder group and the impact that the outcome of any decisions may have on them to ensure they are in the best interests of the Company now and in the longer term.

The most significant matters considered by the Board in the current year related to the acquisition and integration of the Ei Group and the impact of the COVID-19 pandemic on the Group's business. These are considered in more detail below.

Directors' report *(continued)*

Ei Group acquisition and integration

Leading up to the acquisition of Ei Group during the year, the Board had already started a programme to identify and realise synergy benefits both from purchasing contracts that could be negotiated across the wider Group and integration of processes and teams to avoid duplication. At acquisition, this created uncertainty for employees and suppliers, but remained in the long-term interest of the business.

Impacted by the pandemic and the additional uncertainty, the Board decided to delay pushing forward the integration until the pubs reopened during the summer with the people integration completing subsequent to the year end and the supplier integration being ongoing. Throughout, the Board was mindful of the impact on affected employees and sought to communicate as early as possible at each stage, thereby upholding high standards of conduct and fairness.

Covid-19

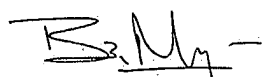
The Covid-19 pandemic has impacted all decision making, but throughout this period of uncertainty, the Board remain committed to making decisions that safeguard our people and ensure the business remains financially viable. Throughout the closure period, the Board were required to preserve cash which meant making decisions about the timing of various payments but ensuring that working relationships with our valued suppliers and landlords were maintained, supporting publicans, accessing government support, furloughing employees and amending banking and debt arrangements. The Board is confident that each decision was made in the best interests of the long-term success of the Group whilst also weighing up and considering the interests of the identified stakeholder groups.

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

All of the directors benefited from qualifying third party indemnity provisions in place during the financial period and at the date of this report.

Approval

The Directors report was approved by the Board on 24 February 2021 and signed on its behalf by:



Brian Magnus
Director

3 Monkspath Hall Road
Shirley
Solihull
B90 4SJ

Statement of directors' responsibilities in respect of the strategic report, the directors' reports and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements 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.

Independent auditor's report to the members of Stonegate Pub Company Pikco Holdings Limited

Opinion

We have audited the financial statements of Stonegate Pub Company Pikco Holdings Limited ("the company") for the period ended 27 September 2020 which comprise the Consolidated Income Statement, Consolidated Statement of Other Comprehensive Income, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Cash Flow Statement, Company Cash Flow Statement and related notes and related notes, including the accounting policies in note 1. The consolidated financial statements reflect the 52 week period ended 27 September 2020 and the financial statement of the company reflect the period 5 July 2019 (the date of incorporation) to 27 September 2020. In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 27 September 2020 and of the group's loss for the 52 week period then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of, and as applied in accordance with the provisions of, the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1.2 to the financial statements which describes the uncertain future effect on trading as a result of the Covid-19 pandemic and in particular uncertainty regarding the substantial achievement of base case forecasts and, in downside scenarios, the continued availability of existing facilities and the availability of such additional funding as may be needed. These events and conditions, along with the other matters explained in note 1.2, constitute a material uncertainty that may cast significant doubt on the group's and company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Independent auditor's report to the members of Stonegate Pub Company Pikco Holdings Limited *(continued)*

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 17, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the members of Stonegate Pub Company Pikco Holdings Limited (continued)

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Mike Barradell (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

Date: 24 February 2021

Consolidated Income Statement
For the 52 weeks ended 27 September 2020

	Notes	52 weeks ended 27 September 2020			52 weeks ended 29 September 2019		
		Pre- exceptional items £m	Exceptional items ¹ £m	Total £m	Pre- exceptional items £m	Exceptional items ¹ £m	Total £m
Revenue	2	707	-	707	853	-	853
Other income	3	69	-	69	-	-	-
Operating costs		(653)	(49)	(702)	(728)	(25)	(753)
Operating profit / (loss) before depreciation, amortisation, impairment, revaluation and loss on sale of non-current assets		123	(49)	74	125	(25)	100
Depreciation and impairment		(153)	(367)	(520)	(57)	(5)	(62)
Revaluation of investment property		-	(8)	(8)			
Brand amortisation		(1)	-	(1)	(17)	-	(17)
Total depreciation, amortisation and impairment		(154)	(375)	(529)	(74)	(5)	(79)
Loss on sale of non-current assets		(3)	-	(3)	(3)	-	(3)
Operating loss	4	(34)	(424)	(458)	48	(30)	18
Finance costs	6	(193)	(115)	(308)	(43)	(1)	(44)
Movement in fair value of warrants		4	-	4	-	-	-
Movement in fair value of swaps		(3)	-	(3)	-	-	-
Loss before taxation		(226)	(539)	(765)	5	(31)	(26)
Taxation	8	68	28	96	5	(4)	1
Loss for the period		(158)	(511)	(669)	10	(35)	(25)
Attributable to:							
Owners of the parent company		(155)	(511)	(666)	10	(35)	(25)
Non-controlling interests		(3)	-	(3)	-	-	-

¹ Exceptional items are explained further in note 7.

The Group has initially applied IFRS 16 at 30 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 1.4.

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

The notes on pages 27 to 87 form part of these financial statements.

Consolidated Statement of Comprehensive Income
For the 52 weeks ended 27 September 2020

		52 weeks ended 27 September 2020	52 weeks ended 29 September 2019
	Notes	£m	£m
Loss for the period		(669)	(25)
Items that will not be reclassified to the income statement			
Re-measurement of defined benefit pension schemes	27	(2)	(6)
Tax credit relating to components of other comprehensive income	8	-	1
Other comprehensive losses after tax		(2)	(5)
Total comprehensive loss for the period		(671)	(30)

The Group has initially applied IFRS 16 at 30 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 1.4.

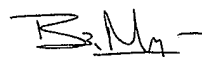
The notes on pages 27 to 87 form part of these financial statements.

Consolidated Balance Sheet
At 27 September 2020

		27 September 2020	29 September 2019
	Notes	£m	£m
Assets			
Non-current assets			
Property, plant and equipment	9	4,148	550
Investment property	10	124	-
Brand	12	4	5
Operating leases	12	-	150
Goodwill	12	243	142
Financial assets	18	7	-
Trade and other receivables	19	9	6
Retirement benefit surplus	27	1	1
		4,624	854
Current assets			
Inventories	17	17	13
Trade and other receivables	19	96	41
Cash and cash equivalents		294	22
Financial assets	18	2	-
		409	76
Non-current assets held for sale	11	44	-
Total assets		5,077	930
Liabilities			
Current liabilities			
Trade and other payables	20	(383)	(140)
Borrowings	21	(99)	(17)
		(482)	(157)
Non-current liabilities			
Borrowings	21	(4,276)	(739)
Derivative financial instruments	22	(5)	-
Deferred tax liabilities	16	(206)	(21)
Retirement benefit obligations	27	(7)	(8)
Provisions	23	(3)	(13)
		(4,497)	(781)
Total liabilities		(4,979)	(938)
Net assets		98	(8)
Equity			
Called up share capital	24	-	-
Share premium	24	999	209
Merger reserve		(108)	(108)
Retained earnings		(790)	(109)
Total equity attributable to owners of the parent company		101	(8)
Non-controlling interests		(3)	-
Total equity		98	(8)

The Group has initially applied IFRS 16 at 30 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 1.4. The notes on pages 22 to 87 form part of these financial statements.

These financial statements were approved by the board of directors on 24 February 2021 and were signed on its behalf by:



Brian Magnus
Director

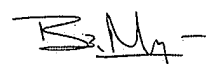
Company registered number: 12086428

Parent company balance sheet
At 27 September 2020

	Notes	27 September 2020 £m
Assets		
Non-current assets		
Investments	15	1,035
		1,035
Current assets		
Trade and other receivables	19	14
		14
Total assets		1,049
Liabilities		
Current liabilities		
Trade and other payables	20	(14)
Borrowings		-
		(14)
Non-current liabilities		
Borrowings		-
		-
Total liabilities		(14)
Net assets		1,035
Equity		
Called up share capital	24	-
Share premium	24	999
Other reserves	24	36
Retained earnings		-
Total equity attributable to owners of the parent company		1,035

The notes on pages 27 to 87 form part of these financial statements.

These financial statements were approved by the board of directors on 24 February 2021 and were signed on its behalf by:



Brian Magnus
Director

Company registered number: 12086428

Consolidated Statement of Changes in Equity
For the 52 weeks ended 27 September 2020

	Share capital £m	Share premium £m	Retained earnings £m	Merger reserve £m	Equity attributable to owners of the Parent Company £m	Non-controlling interests £m	Total equity £m
Total equity at 30 September 2018	-	194	(79)	(108)	7	-	7
Total comprehensive income / (losses):							
Losses for the period	-	-	(25)	-	(25)	-	(25)
Other comprehensive income for the period	-	-	(5)	-	(5)	-	(5)
Total comprehensive losses for the period	-	-	(30)	-	(30)	-	(30)
Shares issued	-	15	-	-	15	-	15
On incorporation	-	-	-	-	-	-	-
Total equity at 29 September 2019	-	209	(109)	(108)	(8)	-	(8)
Adjustment on initial application of IFRS 16 (net of tax)	-	-	-	-	-	-	-
Adjusted balance at 30 September 2019	-	209	(109)	(108)	(8)	-	(8)
Total comprehensive income / (losses):							
Losses for the period	-	-	(666)	-	(666)	(3)	(669)
Other comprehensive income for the period	-	-	(1)	-	(1)	-	(1)
Total comprehensive losses for the period	-	-	(667)	-	(667)	(3)	(670)
Shares issued	-	790	-	-	790	-	790
Transactions with shareholders	-	-	(14)	-	(14)	-	(14)
Total equity at 27 September	-	999	(790)	(108)	101	(3)	98

The Group has initially applied IFRS 16 at 30 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 1.4.

Parent Company Statement of Changes in Equity
For the period 5 July 2019 to 27 September 2020

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
On incorporation at 5 July 2019	-	-	-	-	-
Transactions with shareholders	-	209	36	-	245
Total comprehensive income / (losses):					
Losses for the period	-	-	-	-	-
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive losses for the period	-	-	-	-	-
Shares issued	-	790	-	-	790
Total equity at 27 September 2020	-	999	36	-	1,035

The notes on pages 27 to 87 form part of these financial statements.

Cash Flow Statements

	Notes	Group 52 weeks ended 27 September 2020 £m	Group 52 weeks ended 29 September 2019 £m	Company 64 weeks ended 27 September 2020 £m
Cash flows from operating activities				
Loss for the period		(669)	(24)	-
Adjustments for:				
-Depreciation, amortisation and impairment		529	78	-
-Loss on sale of non-current assets		3	3	-
-Net finance costs		307	44	-
-UK income tax credit		(96)	(1)	-
		74	100	-
Changes in:				
-Inventories		1	-	-
-Receivables		(20)	(6)	-
-Payables		38	15	-
-Provisions		-	(3)	-
-Difference between pension contributions paid and amounts recognised in operating profit		(2)	(2)	-
Cash generated from operating activities		91	104	-
Income tax paid		4	(2)	-
Net cash flow from operating activities		95	102	-
Cash flows from investing activities				
Purchase of property, plant and equipment		(81)	(83)	-
Net proceeds from sale of property, plant and equipment		12	2	-
Loan made to ultimate parent company		-	(6)	-
Payments for business acquisitions	14	(1,265)	(57)	-
Net cash acquired on business acquisitions	14	161	4	-
Net cash flow from investing activities		(1,173)	(140)	-
Cash flows from financing activities				
Interest paid	21	(143)	(38)	-
Advance of borrowings	21	2,800	201	-
Repayment of borrowings	21	(1,962)	(143)	-
Proceeds from share issue		790	15	-
Transaction costs related to loans and borrowings		(120)	(5)	-
Net cash flow from financing activities		1,365	30	-
Net increase/(decrease) in cash and cash equivalents		286	(8)	-
Opening cash and cash equivalents		8	16	-
Closing cash and cash equivalents		294	8	-

The Group has initially applied IFRS 16 at 30 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 1.4.

The notes on pages 27 to 87 form part of these financial statements.

Notes to the consolidated financial statements

1 Accounting policies

Stonegate Pub Company PIKCO Holdings Limited (the "Company") is a company incorporated by shares and domiciled in England and Wales, registration number 12086428. The registered office is 3 Monkspath Hall Road, Shirley, Solihull, B90 4SJ.

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") for the 52 week period ended 27 September 2020. The parent company financial statements present information about the Company as a separate entity and not about its group for the period from 5 July 2019 (date of incorporation) to 27 September 2020. The presentation currency of these financial statements is sterling.

Both the parent company financial statements and the group financial statements have been prepared and approved by the directors in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRS"). On publishing the parent company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these group financial statements.

The Company's profit after tax for the period was £nil.

1.1 Measurement convention

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

1.2 Going concern

The Board have reviewed the cash flow forecasts for the Company and the Group for the period to July 2022 at which point the Group's additional £50 million liquidity granted under the RCF falls away and have concluded that the Group has sufficient liquidity in order to service its debt and meet its other liabilities as they fall due such that it remains appropriate to prepare the accounts under the going concern basis.

The Group's principal activities, together with the principal risks and uncertainties factors likely to affect its future development, performance and position are set out in the Strategic and Directors' Reports on pages 2 to 16. The financial position of the Group is set out in the Consolidated Balance Sheet on page 23 which shows net assets of £98 million (2019: net liabilities of £8 million). During the period ended 27 September 2020 the Group has experienced a net cash inflow of £286 million (2019: outflow of £8 million) which was driven by the issue of external debt used to acquire the entire issued share capital of Ei Group Limited on 3 March 2020.

The Group met its day-to-day working capital requirements through its standard trading cycle of cash generation and its £250 million combined overdraft and revolving credit facility. 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 (current period net current liabilities of £73 million). At the period end the Group had drawn down £175 million of its revolving credit facility. At the balance sheet date, the Group was financed by external debt totalling £3,300 million, details of which are set out in note 21. As a result of the acquisition on 3 March 2020:

- Stonegate Pub Company Financing 2019 plc received senior secured fixed rate notes of £950 million; privately placed fixed rate notes of £500 million; and floating rate notes of £300 million;
- Stonegate Pub Company Bidco Limited received a £178 million Senior Term Loan as well as a £400 million Second Lien Facility;
- Stonegate Pub Company PIKCO Limited received a PIK facility of £325 million; and
- The Group repaid its Secured Fixed and Floating Notes of £745 million and Ei Group Limited external debt of £1,209 million.

Notes (continued)

1 Accounting policies (continued)
1.2 Going concern (continued)

During the period the Group also received a cash injection from TDR Capital LLP, the ultimate controlling party, of £50 million and subsequent to the year end in December 2020 has raised a further £120 million in the debt markets as disclosed in note 31.

The Covid-19 pandemic has had a significant impact on the liquidity of the Group during the year and will continue to do so during the going concern period. Since the initial closure of the estate on 20 March 2020, the Group has implemented appropriate measures to reduce the impact on the business, including cost reduction, accessing benefits from the Government support schemes including the Coronavirus Job Retention Scheme, business rates relief and HMRC deferment of indirect tax, postponement of refurbishments and other capital expenditure projects. The base case forecasts are for a period until July 2022 and are based on an expected lockdown period then a forecast recovery rate upwards from that assumption back to 'normalised' trade. The assumption for January to April 2021 is that pubs must remain closed and can then reopen with restrictions from mid April 2021. Management assume that trade grows from April, with normalised trading levels (being similar to the trade in the year ended 30 September 2019) returning from the end of June 2021 as restrictions are expected to be lifted and continuing throughout the rest of the going concern period.

The directors believe that although forecasting is difficult, the phasing in the base case model represents an appropriate approach as the vaccination programme is rolled out, restrictions are expected to be relaxed and people's confidence to visit a venue grows. The forecasts include controllable actions such as a delay in all non-committed capital expenditure and leasehold rent payments (as allowed under the rent moratorium), a reduction in variable costs, and taking advantage of the 12-month business rates holiday announced for the hospitality sector. 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 nor the Unique securitisation. However, if sales levels were not to rise in line with base case forecasts, there is a risk that these could be breached.

The Board has also considered a severe downside scenario where there is a further two-month lockdown in the winter of 2021/22. Should this be the case, the Group would have insufficient liquidity in January 2022. The directors believe that sufficient mitigating actions are available to them to give them confidence that such a lockdown would not compromise the going concern of the business. Such mitigating actions could include the sale of assets, the raising of new debt or equity and/or amending the timing of payments due to third parties.

In addition, should there be a delay in any reopening of pubs until the start of June, the DSCR covenant in the Unique securitisation would breach in the June 2021 quarter, without further mitigation. If the Group was unable to comply with the DSCR covenant, there is a risk that the lenders would require immediate repayment of the bonds. Furthermore, if EBITDA was 35% below Management's forecasts, the RCF covenant could breach in the first quarter of the next financial year. Whilst the Group does not intend to negotiate any further amendments or waivers with the Unique bondholders and the RCF lenders, both groups have been supportive already and Management are confident they would be supportive again if required.

Based on the above, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, the future uncertain effect on trading arising as a result of the Covid-19 pandemic and in particular the substantial achievement of base case forecasts and, in downside scenarios, the continued availability of existing facilities and the availability of such additional funding as may be needed, indicate that a material uncertainty exists that may cast significant doubt on the Company and Group's ability to continue as a going concern. The financial statements do not contain the adjustments that would result if the Company and Group were unable to continue as a going concern.

Notes (continued)

1 Accounting policies (continued)

1.3 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 27 September 2020. The book value method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal. Goodwill held by subsidiaries is continued to be recognised in the consolidated balance sheet. In applying book value accounting, an adjustment is required in equity, to the merger reserve, to reflect any difference between the consideration paid and the share capital of the acquiree.

1.4 Changes in significant accounting policies

IFRS 16 Leases

The Group has initially adopted IFRS 16 Leases from 30 September 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

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

See note 26 for the impact of IFRS 16 on transition at 30 September 2019 and on the period ending 27 September 2020.

1.5 Financial instruments

Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. 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)

1.5 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.

Notes (continued)

1 Accounting policies (continued)

1.5 Financial instruments (continued)

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's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the 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.

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. 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.

Notes (continued)

1 Accounting policies (continued)

1.6 Property, plant and equipment

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

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

- 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.

1.7 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.

1.8 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)

1.9 Business combinations

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

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.

1.10 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 27 September 2020 the goodwill has been allocated to the operating segments described in note 2. The goodwill as a result of the Ei Group Limited acquisition has been allocated to operating segments based on the synergies expected to be generated by that segment and allocated to individual properties based on their relative value at that time, and on disposal of a property, this attributable amount of goodwill is included in the determination of profit or loss on sale. 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.

1.11 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 taken the practical expedient in paragraph C3 of IFRS 16 'Leases' not to reassess whether an existing contract is or contains a lease at the date of initial application and as such the IFRS 16 definition of a lease has only been applied to contracts which were entered into or amended on or after 5 July 2019.

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.

Notes (continued)

1 Accounting policies (continued)

1.11 Leases (continued)

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.

In the prior period under IAS 17 Leases, rental costs under operating leases, including lease incentives, were charged to the income statement on a straight-line basis over the term of the lease. Similarly, income receivable under operating leases was credited to the income statement on a straight-line basis over the term of the lease.

As a lessor

Lessor accounting remains similar to IAS 17, whereby the lessor continues to classify leases as finance or operating leases, however, the standard prescribes that the sub-lease of an asset held on a lease is categorised as a finance lease or an operating lease with reference to the right of use asset arising from the head 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.

Notes (continued)

1 Accounting policies (continued)

1.11 Leases (continued)

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.

Lease 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.

1.12 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.

1.13 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.

1.14 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.

1.15 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

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

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

Notes (continued)

1 Accounting policies (continued)

1.15 Impairment excluding inventories and deferred tax assets (continued)

Non-financial assets

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

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

The Group considers each of its individual pubs as a cash-generating unit. Each CGU is reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. 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.

Notes (continued)

1 Accounting policies (continued)

1.16 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.

Notes (continued)

1 Accounting policies (continued)

1.17 Provisions

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

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

1.18 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, volume rebates 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.

Publican Partnerships

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.

Commercial Properties

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.

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.

Notes (continued)

1 Accounting policies (continued)

1.19 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.

1.20 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.

1.21 Taxation

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

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

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

1.22 Exceptional items

The Group presents separately on the face of the income statement those material items of income and expense which are outside of the normal course of trading, which management consider will distort comparability, in order to provide a trend measure of underlying performance. This includes movements in the valuation of investment properties and the impairment of property, plant and equipment 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 7.

1.23 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.

Notes (continued)

1 Accounting policies (continued)

1.23 Key accounting judgements and estimates (continued)

Exceptional items

During the period certain items are identified and separately disclosed as exceptional. Judgement is applied as to whether the item meets the necessary criteria as per the accounting policy disclosed. This assessment covers the nature of the item, cause of occurrence and the scale of impact of that item on reported performance. Note 7 provides information on all of the items disclosed as exceptional in the current and previous period.

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.

Financing costs

When borrowings are refinanced the Group uses judgement when reviewing whether the arrangements constitutes an extinguishment of the original financial liability and the recognition of a new financial liability or a substantial or non-substantial modification of the terms of the existing financial liability. Management have taken into account both quantitative and a range of qualitative factors where judgement has been applied. As described in note 21, the Group carried out a number of refinancing events during the period and the following judgements have been made:

- With regards to the refinancing of £1,450 million of bridging loans on 13 July 2020 and 31 July 2020, judgement has been applied in determining that these two events were non-substantial modifications to the existing financial liability through consideration of the difference between the net present value of future cashflows driven by the existing liability and the new liabilities. In addition, management have considered the qualitative factors; commercially the financing has not changed, the principal owed remained the same, the coupon rate did not materially change and there have only been slight changes to the duration term.
- With regards to the refinancing of £271 million of the term loan on 31 July 2020, judgement has been applied in determining that the event was a substantial modification as a result of the change in lenders and currency of the debt instrument such that management deem the modification to be substantial. The modification of the original liability is accounted for as an extinguishment and any difference between the carrying amount of the original liability and the fair value of the new liability is recognised in profit or loss.
- With regards to the refinancing of the remaining £179 million of the term loan on 25 September 2020, judgement has been applied in determining that the event was a substantial modification as a result of the change in lenders and currency of the debt instrument such that management deem the modification to be substantial. The modification of the original liability is accounted for as an extinguishment and any difference between the carrying amount of the original liability and the fair value of the new liability is recognised in profit or loss.

Covid-19 financial support

Management have exercised judgement when determining that financial support granted to the Group's publicans during the year constituted variable payments under its leases. This judgement is driven by the Group's commitment to support its publicans during periods of detrimental changes to their business outside their control being part of their agreement with us for the lease of the pub. Management have determined that the Covid-19 pandemic is such a detrimental change and that the financial support concessions granted to them fall under the original terms of the lease rather than a modification to the lease. The effect of this judgement being that £22 million of financial support has been recognised in the current financial period being the period in which the trigger event for the variable payments arose. Had the directors instead concluded that the concessions represented a modification of the existing leases, an amount of up to £22 million would have been spread straight line over the remaining lease terms, reducing rental income in future periods.

Notes (continued)

1 Accounting policies (continued)

1.23 Key accounting judgements and estimates (continued)

Key areas of estimation

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

Impairment of property, plant, equipment

Property, plant and equipment is reviewed for impairment if there are any indicators to suggest that the carrying amount may not be recoverable. Recoverable amounts are determined based on value-in-use calculations and fair values. Where fair values have been used these are derived from known sales proceeds or an external valuation. Impairment is discussed further in note 13.

Business combinations

On 3 March 2020, the Group acquired Ei Group Limited and identified separate assets and liabilities acquired which are recognised at fair value. Included in property, plant and equipment are freehold and leasehold properties of whose fair value was derived at by an external valuation. The valuation methodology uses an estimation of the fair maintainable trade (FMT) of a property and then applies a multiple. The FMT is estimated based on historic trends and projected future income whilst the multiples are determined by our valuers with reference to each specific asset and market information. For more detail on the FMT and multiples see note 13. Note 14 describes the business combinations in the current and prior periods and provides details of the fair value adjustments made in arriving at the fair value of assets and liabilities acquired.

Valuation of investment properties

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.

Investment properties are valued annually to fair value in accordance with the Appraisal and Valuation Manual published by the Royal Institute of Chartered Surveyors (RICS) and IFRS 13. The valuation is based on an assessment of the income generating potential of the properties and applying an appropriate multiple. The highest and best use for the property assets 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 to access. Further information about the valuation of investment properties is provided in note 10 of these financial statements.

The valuation methodology uses an estimation of the fair maintainable trade (FMT) of a property and then applies a multiple. The FMT is estimated based on historic trends and projected future income whilst the multiples are determined by our valuers with reference to each specific asset and market information. For more detail on the FMT and multiples see note 10.

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:

- Amendments to References to the Conceptual Framework in IFRS Standards (effective date 1 January 2020).
- Amendments to IFRS 3: Definition of a Business (effective date to be confirmed).
- Amendments to IAS 1 and IAS 8: Definition of Material (effective date 1 January 2020).
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (effective date to be confirmed).

Notes (continued)

2 Segmental reporting

On 3 March 2020, Stonegate Pub Company Bidco Limited acquired the entire share capital of Ei Group Limited. As a result of this the directors have reassessed their operating segments based on the discrete management information regularly reviewed by the Chief Operating Decision Maker (CODM).

The Group now has five distinguishable revenue generating operating segments being Publican Partnerships, Commercial Properties, Craft Union Pub Company, Stonegate and Joint Ventures which reflect the different nature of income earned, types of property and profile of customers.

Operating segments are aggregated into reportable segments when they have similar economic characteristics and therefore Craft Union Pub Company, Stonegate and Joint Ventures have been combined as they represent income earned from the direct operation of pubs, albeit through different trading styles.

This results in three reportable segments being:

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

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 note below.

The CODM reviews the financial results by segment to underlying EBITDA and this therefore provides the basis for the disclosures below. Inter-segment revenues and costs are eliminated upon consolidation 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.

	Publican Partnerships	Commercial Properties	Managed	Central	Total
2020					
52 weeks	£m	£m	£m	£m	£m
Drink revenue	88	-	466	-	554
Rent revenue	29	6	-	-	35
Food revenue	-	-	88	-	88
Revenue from amusement and other machines	1	-	16	-	17
Admission, accommodation and other revenue	-	-	13	-	13
Total revenue	118	6	583	-	707
Other income	-	-	61	8	69
Operating costs before depreciation and amortisation	(53)	-	(531)	(118)	(702)
Underlying EBITDA	65	6	113	(110)	74
Depreciation and amortisation					(529)
Loss on sale of non-current assets					(3)
Finance costs and movement in fair value of warrants and swaps					(307)
Loss before tax					(765)
Taxation					96
Loss after tax					(669)

In the period ended 29 September 2019 the Group operated as one operating segment related to the legacy Stonegate business which is now included within the Managed segment above. This segment had underlying EBITDA of £167 million and associated central costs of £67 million. Group loss before tax was £25 million.

Notes (continued)

3 Other income

	2020 52 weeks £m	2019 52 weeks £m
Government grants	69	-
Total government grants	69	-

During the period £62 million was recognised within other income in relation to the Coronavirus Job Retention Scheme; £4 million in relation to the Government's Eat Out To Help Out scheme and £3 million was recognised in relation to government grants.

4 Expenses

Included in operating loss are the following expenses:

	2020 52 weeks £m	2019 52 weeks £m
Drink and food costs	197	212
Employment costs	265	246
Operating lease rentals	-	61
Other costs	240	234
Depreciation, amortisation and impairment	529	79
Loss on sale of non-current assets	3	3
Costs deducted from revenue to determine operating loss	1,234	835

Included within operating loss are £424 million (2019: £30 million) of costs relating to exceptional items (see note 7).

Auditor's remuneration

Fees payable to the Company's auditors for the audit of the Group and subsidiary financial statements amount to £830,000 and fees payable for audit-related assurance services is £218,000. Fees payable for tax compliance is £168,000 and tax advisory is £222,000. Fees for other corporate finance services are £110,000.

Notes (continued)

5 Employees

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

	2020 52 weeks	2019 52 weeks
Head office administration ¹	883	431
Retail ¹	14,843	13,988
	15,726	14,419

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

At the period end the Group had 15,900 employees (2019: 14,961 employees).

The aggregate payroll costs were as follows:

	2020 52 weeks £m	2019 52 weeks £m
Wages and salaries	244	226
Social security costs	17	17
Pension costs	4	3
	265	246

6 Finance costs

	2020 52 weeks £m	2019 52 weeks £m
Interest payable on loan notes	86	38
Bank interest	38	-
PIK interest	23	-
Other interest payable	6	2
Debt issue costs amortisation	6	4
Refinancing costs	110	-
Discounting of lease liabilities	39	-
Total finance costs	308	44

Included within finance costs are £116 million (2019: £1 million) of costs relating to exceptional items (see note 7).

Notes (continued)

7 Exceptional items

	2020 52 weeks £m	2019 52 weeks £m
Operating exceptional items		
Acquisition costs	36	3
Integration costs	12	6
Surrender premiums	1	-
Discretionary exit bonus	-	16
Impairment of property, plant and equipment (note 13)	357	4
Impairment of operating leases (note 13)	-	1
Impairment of non-current assets held for sale (note 13)	10	-
Revaluation of investment properties (note 10)	8	-
Onerous lease provision	-	2
Onerous lease reversal	-	(2)
	424	30
Finance costs	115	1
UK income tax charge relating to exceptional items	(28)	4
Total exceptional items	511	35

Acquisition costs: Acquisition costs are items of one-off expenditure incurred, primarily, in connection with the acquisition of Ei Group Limited. These costs include legal and professional fees of £30 million and stamp duties of £6 million which are expensed as incurred. During the previous year £3 million of acquisition fees were incurred in relation to the acquisition of seventeen leasehold sites from A3D2 Limited, Balls Brother (Emporium) Limited, Tank and Paddle Limited and Bar Fever Limited.

Integration costs: As a result of the acquisition of Ei Group Limited and the impact of Covid-19 the Group incurred total integration costs of £10 million. This included the restructure of its support function with associated legal and professional fees of £4 million; the closure of the legacy Stonegate head office and a reduction of roles across all support functions at a cost of £5 million. Pre-conversion costs of £1 million were also incurred whereby Ei Group Limited members of staff were placed within Stonegate Pub Company Limited sites to gain an understanding of Stonegate Pub Company Limited's ways of working. The Group also incurred £2 million of integration costs following acquisitions made in prior periods. Integration costs of £6 million were incurred in the prior period in relation to the integration of Bar Fever Limited, Be At One Holdings Limited and leasehold site acquisitions from A3D2 Limited, Balls Brother (Emporium) Limited and Tank and Paddle Limited.

Surrender premiums: During the period £1 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.

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

Impairment and Revaluation: Also included in exceptional items are impairments of property, plant and equipment; operating leases; non-current assets held for sale and the revaluation of investment properties. These costs are considered as exceptional in nature and are discussed further in note 13.

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

Notes (continued)

7 Exceptional items

Finance costs: During the period the Group carried out a number of financing events which resulted in a net finance cost of £103 million. These events are discussed further in note 21. Also included in finance costs are the repayment of the previously held loan notes including £6 million early redemption charge, £1 million of other fees and the write off of £5 million debt issue costs. Finance costs in the prior period relate to the repayment of the bridging finance facility. The costs associated with this are considered as exceptional in nature.

8 Taxation

	2020 52 weeks £m	2019 52 weeks £m
Tax charged in the income statement		
Current tax:		
- UK corporation tax	-	-
- Adjustments in respect of previous periods	(1)	-
Total current tax credit	(1)	-
Deferred tax (note 14):		
- Origination and reversal of temporary differences	(110)	(1)
- Adjustments in respect of previous periods	(4)	-
- Rate change	19	-
Total deferred tax credit	(95)	(1)
Total current and deferred tax credited in the income statement	(96)	(1)
	2020 52 weeks £m	2019 52 weeks £m
Tax credited in other comprehensive income		
Deferred tax:		
- Re-measurement of defined benefit pension schemes	-	(1)
Total tax (credit) / charge recognised in other comprehensive income	-	(1)

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

	2020 52 weeks £m	2019 52 weeks £m
Loss before tax	(765)	(26)
Tax at current UK corporation tax rate of 19%	(145)	(5)
Expenses not deductible for tax purposes	34	4
Impact of rate change	19	-
Adjustment in respect of previous periods	(5)	-
Deferred tax not recognised	1	-
Total tax credited in the income statement	(96)	(1)

Notes (continued)

9 Property, plant and equipment

Group	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							
At 30 September 2018	-	331	127	-	244	-	702
Acquisitions through business combinations	-	-	-	-	1	-	1
Additions	-	7	19	-	58	-	84
Disposals	-	(2)	(1)	-	(7)	-	(10)
Fully depreciated assets	-	-	(2)	-	(19)	-	(21)
At 29 September 2019	-	336	143	-	277	-	756
IFRS 16 adoption (note 26)	692	-	-	-	-	-	692
Acquisitions through business combinations (note 14)	311	2,759	33	192	39	28	3,362
Additions	11	19	12	6	39	1	88
Disposals	(4)	(1)	(1)	-	(7)	-	(13)
Reclassification	-	-	-	-	(33)	33	-
Transfer to non-current assets held for sale (note 11)	(6)	(14)	(2)	(1)	(4)	-	(27)
Transfer to investment properties (note 10)	-	(5)	-	-	-	-	(5)
Fully depreciated assets	(1)	-	(5)	-	(23)	-	(29)
At 27 September 2020	1,003	3,094	180	197	288	62	4,824
Depreciation							
At 30 September 2018	-	(10)	(45)	-	(117)	-	(172)
Charge for the year	-	(2)	(10)	-	(45)	-	(57)
Impairment (note 13)	-	(2)	(1)	-	(1)	-	(4)
Disposals	-	-	1	-	5	-	6
Fully depreciated assets	-	-	2	-	19	-	21
At 29 September 2019	-	(14)	(53)	-	(139)	-	(206)
Charge for the period	(66)	(8)	(12)	(12)	(53)	(2)	(153)
Impairment (note 13)	(27)	(320)	(1)	(2)	(7)	-	(357)
Disposals	-	-	-	-	6	-	6
Reclassification	-	-	-	-	17	(17)	-
Transfer to non-current assets held for sale (note 11)	1	-	2	-	2	-	5
Fully depreciated assets	1	-	5	-	23	-	29
At 27 September 2020	(91)	(342)	(59)	(14)	(151)	(19)	(676)
Net book value							
At 27 September 2020	912	2,752	121	183	137	43	4,148
At 29 September 2019	-	322	90	-	138	-	550
At 30 September 2018	-	321	82	-	127	-	530

The Group has initially applied IFRS 16 at 30 September 2019, using the modified retrospective approach. Under this approach, operating lease intangibles with a net book value of £150 million have been reclassified to right-of-use assets. At 30 September 2019 the Group recognised a right-of use asset of £542 million (after adjustments for onerous lease provisions, lease prepayments and accrued lease expenses).

Included within non-licensed properties and other assets are the head office building, fixtures and fittings and non-licensed properties that were all part of the acquisition of Ei Group Limited on 3 March 2020 (see note 14). Central IT and other assets with a cost of £33 million and accumulated depreciation of £17 million were reclassified to non-licensed properties and other assets during the year.

Notes (continued)

10 Investment property

Group	Right-of-use assets £m	Land and buildings £m	Total £m
Fair value			
At 29 September 2019	-	-	-
Acquisitions through business combinations (note 14)	21	106	127
Transfer from property, plant and equipment (note 9)	-	5	5
Impairment (note 13)	(1)	(7)	(8)
At 27 September 2020	20	104	124

Properties held as investment property are measured at fair value reflecting market conditions at the balance sheet date. Investment properties include free-of-tie pubs let to tenants at open market rents and non-pub assets, which are predominantly blue-chip let convenience stores. 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. Valuations are carried out on an annual basis at each year end date. The Group's properties were valued as at 27 September 2020 by GVA Grimley Limited (t/a Avison Young) and Colliers International Property Advisers UK LLP, independent Chartered Surveyors.

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. At 27 September 2020 the spread of the Covid-19 virus and social distancing measures put in place in order to stem that spread, has disrupted activity in real estate markets for the hospitality sector, creating heightened valuation uncertainty for the Group's valuers. As a result, the valuation report includes a clause which highlights a 'material valuation uncertainty'. For the avoidance of doubt, this clause does not mean that the valuation cannot be relied upon. Rather, it has been included to ensure transparency and to provide further insight as to the market context under which the valuation opinion was prepared.

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.

All valuations of assets have been assessed as being level 3 valuations, as there are no directly comparable market observable inputs. 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 year the highest and best use of all investment properties has been assessed as their existing use.

Notes (continued)

10 Investment property (continued)

The table below presents the income and multiple bandings within which the investment 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 forms the most appropriate disclosure.

Income bandings	Total number	Multiple applied to income				
		over 16 times	14 - 16 times	12 - 14 times	10 - 12 times	under 10 times
At 27 September 2020						
more than £90,000 per annum	21	-	1	9	10	1
£60,000 to £90,000 per annum	51	-	4	30	12	5
less than £60,000 per annum	59	-	4	22	16	17
	131	-	9	61	38	23
At 29 September 2019						
more than £90,000 per annum	-	-	-	-	-	-
£60,000 to £90,000 per annum	-	-	-	-	-	-
less than £60,000 per annum	-	-	-	-	-	-
	-	-	-	-	-	-

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 investment properties 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 investment properties. Sensitivities around these assumptions that are deemed to be reasonably likely based on the experience of the valuers are illustrated below:

	2020 52 weeks £m	2019 52 weeks £m
FMT sensitivity		
+2.5%	3	-
-2.5%	(3)	-
Multiple sensitivity		
+0.25	2	-
-0.25	(2)	-

Notes (continued)

11 Non-current assets held for sale

Group	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 29 September 2019	-	-	-	1	-	1
Acquisitions through business combinations (note 14)	-	3	45	-	-	48
Transfer from property, plant and equipment	-	5	14	1	2	22
Transfer from lease liabilities	(5)	-	-	-	-	(5)
Disposals	-	-	(11)	-	-	(11)
Impairment (note 13)	-	(1)	(9)	-	-	(10)
At 27 September 2020	(5)	7	39	1	2	44

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 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 105 sites in total with 42 sites identified by the CMA as sites which are to be disposed following the acquisition of Ei Group Limited by the Group.

Notes (continued)

12 Goodwill and brand intangible assets

Group	Brand £m	Operating leases £m	Goodwill £m
Cost			
At 30 September 2018	6	145	129
Acquisitions through business combinations	-	47	17
Disposals	-	-	-
Fully depreciated assets	-	-	-
At 29 September 2019	6	192	146
Adoption of IFRS 16	-	(192)	-
Acquisitions through business combinations (note 14)	-	-	102
Disposals	-	-	(1)
At 27 September 2020	6	-	247
Amortisation			
At 30 September 2018	-	(25)	(4)
Charge for the year	(1)	(16)	-
Impairment (note 13)	-	(1)	-
Disposals	-	-	-
Fully depreciated assets	-	-	-
At 29 September 2019	(1)	(42)	(4)
Adoption of IFRS 16	-	42	-
Charge for the year	(1)	-	-
At 27 September 2020	(2)	-	(4)
Net book value			
At 27 September 2020	4	-	243
At 29 September 2019	5	150	142
At 30 September 2018	6	120	125

Goodwill of £102 million was recognised in the period relating to the acquisition of Ei Group Limited (see note 14).

Goodwill has been reduced in the period by £1 million (2019: £Nil), representing the apportioned value of goodwill allocated to those sites disposed of during the period.

As part of the transition to IFRS 16 right-of-use assets with a net book value of £150 million have been reclassified to property, plant and equipment (see note 9).

Notes (continued)

13 Impairment testing
Property, plant and equipment

The Group considers each of its individual pubs as a cash-generating unit (CGU). Each CGU is reviewed annually for indicators of impairment, and impairment reversals for previously impaired CGUs. When indicators of impairment are identified the carrying value of the individual pub is compared to its recoverable amount. The recoverable amount is determined as being the higher of the value in use and fair value less costs to sell.

On 20 March 2020, all pubs and restaurants were mandatorily closed under government instruction due to the Covid-19 pandemic. This closure is considered to be a significant indicator of impairment of property, plant and equipment. As a result a full impairment review of all of the Group's property, plant and equipment has been performed by comparing recoverable amount to its carrying values. Any resulting impairment relates to sites with poor trading performance, where the output of the calculation is insufficient to justify their current net book value. Value in use calculations use forecast trading performance cash flows, which are discounted by applying a pre-tax discount rate of 9.58% (2019 52 weeks 8.15%). Management has applied a CGU specific risk premium to the discount rate used for goodwill impairment testing. 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. The cost of equity has been further inflated by using a theoretical share price derived from peer group data.

At 27 September 2020, the value in use calculations include an estimate of the impact of expected closure period and subsequent build up in trade post reopening, as a direct result of the Covid-19 pandemic. The site forecast cash flows used in the value in use calculations take into account the response by the UK government to the Covid-19 pandemic and therefore include a longer turnaround of profit back to pre-Covid-19 levels.

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 GVA Grimley Limited (t/a Avison Young) and Colliers International Property Advisers UK LLP, 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 – 2017 Global Edition) 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. As part of this the valuers have taken into account the expected rebuild in trade following reopening as a result of Covid-19.

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 year 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.

Notes (continued)

13 Impairment testing (continued)

Impairments totalling £367 million (2019: £5 million) were identified as follows:

	2020 52 weeks £m	2019 52 weeks £m
Property, plant and equipment (note 9)	357	4
Non-current assets held for sale (note 11)	10	-
Operating leases (note 12)	-	1
Total impairment	367	5

There remains a risk that following the period end, restrictions on trading and additional national lockdowns may lead to further impairments being recognised in the period to 26 September 2021.

Sensitivity analysis – property, plant and equipment

Where fair value is based on the external valuation, the significant unobservable inputs used in the fair value measurement, categorised within level 3 of the fair value hierarchy, 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 valuations and impairment recognised. Sensitivities around these assumptions that are deemed to be reasonably likely based on the experience of the valuers are illustrated below:

	2020 52 weeks £m
FMT sensitivity	
+2.5%	68
-2.5%	(68)
Multiple sensitivity	
+0.25	75
-0.25	(75)

Value in use calculations are most sensitive to changes in forecast cash flows and discount rate changes, such that if there was a further years delay in the build-up in trade post reopening as a result of the Covid-19 pandemic, the impairment charge would increase by £5 million. If the discount rate was to increase by 1%, the impairment charge would increase by £7 million.

Notes (continued)

13 Impairment testing (continued)

Goodwill

Goodwill acquired via business combinations is tested annually for impairment. At 27 September 2020 the goodwill has been allocated to the operating segments described in note 2. The goodwill as a result of the Ei Group Limited acquisition has been allocated to operating segments based on the synergies expected to be generated by that segment. Of the £102 million of goodwill acquired, £47 million was allocated to Publican Partnerships; £15 million to Craft Union Pub Company and £40 million to Stonegate. No goodwill has been allocated to Commercial Properties or Joint Ventures as they are not expected to benefit from any synergies as their trading styles are quite different from the rest of the business. The carrying amount of goodwill allocated to each operating segment at the period end is as follows:

	Goodwill £m
Publican Partnerships	47
Craft Union Pub Company	15
Stonegate	181
	<u>243</u>

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 discussed below:

Publican Partnerships

The basis used for the recoverable amount is value in use. Forecast EBITDA and cash flows were prepared over a two year period. The key assumptions in these estimates are trading margin, rent projections and levels of working capital required to support trading. 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. Cash flows are extrapolated using a 2.5% growth rate for a further three years, after which a 1% growth rate is applied into perpetuity. The key driver to maintaining the growth rate is management's focus on selecting and supporting the best publicans, whilst meeting the challenges of changing consumer demand. The forecast cash flows are then discounted to give a value in use using a pre-tax risk adjusted discount rate of 8.35% (2019: 8.15%). 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. The cost of equity has been further inflated by using a theoretical share price derived from peer group data. As at 27 September 2020, the impairment test has resulted in no goodwill impairment.

Craft Union Pub Company

The basis used for the recoverable amount is value in use. Forecast EBITDA and cash flows were prepared over a two year period. The key assumptions in these estimates are trading margin and levels of working capital required to support trading. 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. Cash flows are extrapolated using a 5% growth rate for a further three years, after which a 2.5% percentage growth rate is applied into perpetuity. The key driver to maintaining the growth rate is management's focus on selecting and supporting the best pub operators, whilst meeting the challenges of changing consumer demand. The forecast cash flows are then discounted to give a value in use using a pre-tax risk adjusted discount rate of 8.35% (2019: 8.15%). 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 equity by using an average of market risk premiums and Company betas at the period end date. The cost of equity has been further inflated by using a theoretical share price derived from peer group data. As at 27 September 2020, the impairment test has resulted in no goodwill impairment.

Notes (continued)

13 Impairment testing (continued)

Stonegate

The basis used for the recoverable amount is value in use. Forecast EBITDA and cash flows were prepared over a two year period. The key assumptions in these estimates are trading margin and levels of working capital required to support trading. 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. Cash flows are extrapolated using a 5% growth rate for a further three years, after which a 2.5% percentage growth rate is applied into perpetuity. The key driver to maintaining the growth rate is management's focus on selecting and supporting the best formats and pub operators, whilst meeting the challenges of changing consumer demand. The forecast cash flows are then discounted to give a value in use using a pre-tax risk adjusted discount rate of 8.35% (2019: 8.15%). 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. The cost of equity has been further inflated by using a theoretical share price derived from peer group data. As at 27 September 2020, the impairment test has resulted in no goodwill impairment.

There remains a risk that following the period end, restrictions on trading and additional national lockdowns may lead to further impairments being recognised in the period to 26 September 2021.

Sensitivity analysis - goodwill

The calculation is most sensitive to changes in assumptions used for pre-tax discount rate and growth rate. Given the uncertainty surrounding future trading levels as a result of the Covid-19 pandemic, Management have also modelled the impact on headroom of 90% of normalised sales for the next two years. Management have assessed these and concluded no reasonably possible change in these assumptions could give rise to an impairment in the Publican Partnerships, Craft Union Pub Company and Stonegate operating segments.

Notes (continued)

14 Acquisitions

Acquisitions in the current period

Ei Group Limited

On 3 March 2020, Stonegate Pub Company Bidco Limited acquired the entire share capital of Ei Group Limited. Total consideration was £1,265 million satisfied in cash. The acquisition was funded by external debt and the issue of shares, see notes 21 and 24 for further details. In the period to 27 September 2020 Ei Group Limited contributed a net loss of £351 million to the consolidated net loss for the period. If the acquisition had occurred on 30 September 2019, Group revenue would have been £1,008 million and net loss would have been £671 million. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 30 September 2019.

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

	Provisional fair value £m
Property, plant and equipment (note 9)	3,360
Investment properties (note 10)	127
Inventory	5
Cash	161
Trade and other receivables	54
Non-current assets held for sale	48
Trade and other payables	(176)
Borrowings (note 21)	(2,230)
Corporation tax	6
Deferred tax (note 16)	(192)
Net assets acquired	1,163
Purchase price satisfied by:	
Cash consideration	1,265
Goodwill (note 12)	102

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

The Group incurred acquisition-related costs of £36 million related to stamp duty and external legal professional fees. These costs have been included in 'exceptional operating costs' in the consolidated income statement (see note 7).

Property, plant and equipment: Included in property, plant and equipment are freehold and leasehold properties of £2,984 million whose fair value was derived at by an external valuation carried out by GVA Grimley Limited (t/a Avison Young) and Colliers International Property Advisers UK LLP, independent Chartered Surveyors. 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 - 2017 Global Edition) 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. This assessment of profit is then capitalised at an appropriate multiple to reflect the risks and rewards of the property being valued. 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. Also included in property, plant and equipment are right-of-use assets of £309 million. Management has re-calculated the lease liability and measured the ROU asset equal to the lease liability at the acquisition date.

Notes (continued)

14 Acquisitions (continued)

Investment property: Included in investment property are freehold and leasehold properties of £127 million whose fair value was derived at by an external valuation carried out by GVA Grimley Limited (t/a Avison Young) and Colliers International Property Advisers UK LLP, independent Chartered Surveyors. 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

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

Inventory: The fair value of inventory was deemed to be its carrying value at the date of acquisition.

Trade and other receivables: Trade receivables are primarily rent and drink debt owing from publicans. Ei Group has a stable customer base mostly paying within their payment terms. Historically, Ei Group has not had any significant write offs. As at 3 March 2020, Ei Group has calculated a expected credit loss provision in accordance with IFRS 9, which is included in this balance.

Non-current assets held for sale: Non-current assets classified as held for sale at the acquisition date must be measured at fair value less costs to sell in accordance with IFRS 3. Management have calculated a fair value uplift of £1 million which is the difference between the estimated recovery value (ERV) and carrying value of the asset held for sale. Where there is risk in relation to planning consent being obtained, that risk has been reflected in the ERV in accordance with IFRS 13 which requires an entity to take into account, the characteristics of the asset or liability being measured that a market participant would take into account when pricing the asset or liability at the measurement date.

Borrowings: Included in borrowings were debentures with a fair value of £1,024 million, unsecured facilities with a fair value of £160 million and a revolving credit facility of £30 million all of which was repaid shortly after acquisition with the proceeds of the financing, discussed in note 21. Also included were securitised bonds with a fair value of £778 million which are amortising and have maturities falling due between 2024 and 2032. The securitised bonds were not repaid as part of the acquisition, therefore, in accordance with IFRS 3, they should be included on the balance sheet at fair value. As the securitised bonds are traded in an active market, a fair value of £778 million was calculated based on the 2 March closing bond prices multiplied by the quantity of each bond held at the acquisition date, resulting in a fair value adjustment required of £93 million.

Deferred tax: The deferred tax balance consists of the difference between the fair value and tax base on accelerated capital allowances; the surplus on the revaluation of fixed assets; the fair value of the debt acquired and IFRS 16 adjustments.

Other acquisitions:

During the current period the Group completed the assignment of one leasehold site. Right-of-use assets of £2 million were recognised relating to this acquisition.

Notes (continued)

14 Acquisitions (continued)

Acquisitions in the prior period

Bar Fever Limited

On 22 January 2019, Stonegate Pub Company Limited acquired the entire issued share capital of Bar Fever Limited comprising 32 trading businesses. Fever mainly comprise late-night bars operating in urban areas throughout England under a variety of brands like Fever, Boutique, Zinc and Moo Moo.

The bars are a strong fit with Stonegate's drink led strategy and compliment the geographical spread of the late-night division.

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

	Fair value £m
Operating leases	22
Property, plant and equipment	-
Inventory	-
Cash	3
Trade and other receivables	1
Trade and other payables	(3)
Deferred tax	(4)
Net assets acquired	19
Purchase price satisfied by:	
Cash consideration	27
Goodwill	8

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

The Group incurred acquisition-related costs of £1 million related to stamp duty and external legal and professional fees. These costs have been included in 'exceptional operating costs' in the consolidated income statement (see note 7).

Operating leases: The fair value of lease premiums was derived through a fair value exercise, taking into accounts earnings (profit) and the geographical locations across the UK, and increases the book value by £22 million.

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

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

Post-acquisition to 29 September 2019 Bar Fever Limited contributed £19 million in revenue and £1 million in profit before tax. If the acquisition of Bar Fever Limited had taken place on 1 October 2018 the Group's consolidated revenue would have been £864 million and its consolidated loss before tax would have been £21 million.

Notes (continued)

14 Acquisitions (continued)

Novus Limited

During the period to December 2018, Stonegate Pub Company Limited assigned 11 sites from A3D2 Limited, trading as Novus, all of which are in prime locations in London. The sites were assigned under a sale and purchase agreement dated 23 July 2018 for the acquisition of 15 sites. A summary of the fair values of the assets and liabilities are given in the table below:

	Fair value £m
Operating leases	21
Property, plant and equipment	-
Inventory	-
Cash	-
Trade and other receivables	1
Trade and other payables	(2)
Deferred tax	(4)
Net assets acquired	16
Purchase price satisfied by:	
Cash consideration	25
Goodwill	9

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

The Group incurred acquisition-related costs of £1 million related to stamp duty and external legal and professional fees. These costs have been included in 'exceptional operating costs' in the consolidated income statement (see note 7).

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

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

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

Post-acquisition to 29 September 2019 these sites contributed £21 million in revenue and £Nil in loss before tax. If the sites had been acquired on 1 October 2018 the Group's consolidated revenue would have been £866 million and its consolidated loss before tax would have been £24 million.

Notes (continued)

14 Acquisitions (continued)

Balls Brothers (Emporium) Limited and Tank and Paddle Limited

On 22 January 2019, Stonegate Pub Company acquired 6 sites from Balls Brothers (Emporium) Limited and Tank and Paddle Limited, all of which are in prime locations in London for cash consideration of £5 million. A summary of the fair value of the assets and liabilities are given in the table below:

	Fair value £m
Operating leases	5
Property, plant and equipment	-
Inventory	-
Cash	-
Trade and other receivables	-
Trade and other payables	-
Deferred tax	(1)
Net assets acquired	4
Purchase price satisfied by:	
Cash consideration	5
Goodwill	1

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

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

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

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

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

Post-acquisition to 29 September 2019 these sites contributed £4 million in revenue and £Nil in loss before tax. If the sites had been acquired at the start of the financial period the Group's consolidated revenue would have been £855 million and its consolidated loss before tax would have been £24 million.

Total payments for business acquisitions in the prior period were £57 million.

15 Investments in subsidiaries

	Company £m
Shares in group undertakings	
On incorporation	-
Additions	1,035
As at 27 September 2020	1,035

On 10 July 2019 the Company subscribed for shares in Stonegate Pub Company Pikco Limited for consideration of £245 million.

On 10 March 2020 the Company subscribed for shares in Stonegate Pub Company Pikco Limited for consideration of £740 million, and for a further £50 million on 17 July 2020.

Notes (continued)

15	Investments in subsidiaries
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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 Plico Holdings Limited:				
Stonegate Pub Company Plico Holdings Limited:	England and Wales	Ordinary	100%	Financing
Stonegate Pub Company Limited<	Cayman Islands	Ordinary	100%	Holding company
Stonegate Pub Company Financing plc<	England and Wales	Ordinary	100%	financing
Plico Company 3 Limited<	Cayman Islands	Ordinary	100%	Holding company
Large Bars Limited#> Reg no. 0444399	England and Wales	Ordinary	100%	Property company
Falcon Project 1 Limited#> Reg no. 10586737	England and Wales	Ordinary	100%	Property company
Bar Holdings Limited#> Reg no. 06615529	England and Wales	Ordinary	100%	Holding company
Be At One Holdings Limited#> Reg no. 07795268	England and Wales	Ordinary	100%	Operation of licensed bars
Stonegate Pub Company Bidos Holdings Limited<	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever Limited#> Reg no. 06845048	England and Wales	Ordinary	100%	Operation of licensed bars
Town and City Pub Group Limited<	England and Wales	Ordinary	100%	Holding company
Bartley Pub Company Limited<	England and Wales	Ordinary	100%	Holding company
Hippo Pub Company Limited<	England and Wales	Ordinary	100%	Operation of licensed bars
Pinto Restaurant Holdings Limited<	Cayman Islands	Ordinary	100%	Holding company
Bay Restaurant Group Limited<	England and Wales	Ordinary	100%	Holding company
Sing and Lettuce Company Limited<	England and Wales	Ordinary	100%	Operation of licensed bars
Votes Group Pension Trustees Limited<	England and Wales	Ordinary	100%	Dormant
Lourel Pension Trustee Company Limited<	England and Wales	Ordinary	100%	Dormant
Interstain (Bars) Limited#> Reg no. 07035173	England and Wales	Ordinary	100%	Operation of licensed bars
Interstain (Bars) II Limited#> Reg no. 09481868	England and Wales	Ordinary	100%	Operation of licensed bars
Interstain (Bars) III Limited#> Reg no. 09591071	England and Wales	Ordinary	100%	Operation of licensed bars
Interstain (Bars) IV Limited#> Reg no. 09591019	England and Wales	Ordinary	100%	Operation of licensed bars
5Sports Bar And Grill (Canary Wharf) Limited#> Reg no. 08295700	England and Wales	Ordinary	100%	Operation of licensed bars
5Sports Bar And Grill Victoria Limited#> Reg no. 07443429	England and Wales	Ordinary	100%	Operation of licensed bars
5Sports Bar And Grill Farringdon Limited#> Reg no. 08295700	England and Wales	Ordinary	100%	Operation of licensed bars
5Sports Bar And Grill (Piccadilly Circus) Limited#> Reg no. 08685199	England and Wales	Ordinary	100%	Operation of licensed bars
Be At One Limited#> Reg no. 04092709	England and Wales	Ordinary	100%	Operation of licensed bars
Stonegate Pub Company Bldco Limited<	England and Wales	Ordinary	100%	Operation of licensed bars
Stonegate Pub Company Financing 2019 plc<	England and Wales	Ordinary	100%	Financing company
Bar Fever (Aylesbury) Ltd#> Reg no. 08292714	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Banbury) Ltd#> Reg no. 0824798	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Barnstable) Ltd#> Reg no. 0833527	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Basingstoke) Ltd#> Reg no. 09764523	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Burton) Limited#> Reg no. 08082218	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Carmarock) Ltd#> Reg no. 10830345	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Cheltenham) Limited#> Reg no. 06401293	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Derby) Ltd#> Reg no. 07266686	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Exeter) Ltd#> Reg no. 10853551	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Framl) Ltd#> Reg no. 10247037	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Leicester) Ltd#> Reg no. 10853551	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Llanoworth) Ltd#> Reg no. 09430376	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Pleat) Ltd#> Reg no. 09349502	England and Wales	Ordinary	100%	Operation of licensed bars

Notes (continued)

15 Investments in subsidiaries (continued)

Name of company	Country of incorporation	Class of shares held	Proportion held	Nature of business
Be Live 345 ttd ^{va} Reg no. 10377435	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Gloucester) Ltd ^{va} Reg no. 06760999	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Isle of Wight) Ltd ^{va} Reg no. 10129193	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Lincoln) ttd ^{va} Reg no. 10421531	England and Wales	Ordinary	100%	Operation of licensed bars
Barclub (Lincoln) Limited ^{va} Reg no. 07959644	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Macclesfield) Ltd ^{va} Reg no. 09792688	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Macclesfield No. 2) Ltd ^{va} Reg no. 11365763	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Maldeston) ttd ^{va} Reg no. 10509364	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Muncatton) Ltd ^{va} Reg no. 07046207	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Muncatton No. 2) Ltd ^{va} Reg no. 10440378	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Oxford) Ltd ^{va} Reg no. 10421829	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Plymouth) ttd ^{va} Reg no. 11054968	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Reading) Ltd ^{va} Reg no. 11454741	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Redditch) Ltd ^{va} Reg no. 06828085	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Shrewsbury) Ltd ^{va} Reg no. 07266690	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Southend) ttd ^{va} Reg no. 11293662	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Taunton) Ltd ^{va} Reg no. 08431218	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Trowbridge) Ltd ^{va} Reg no. 06776726	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Tunbridge Wells) Ltd ^{va} Reg no. 09942683	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Weston-Super-Mare) Ltd ^{va} Reg no. 10908672	England and Wales	Ordinary	100%	Operation of licensed bars
Kukul Bars (Newbury) Ltd ^{va} Reg no. 08431208	England and Wales	Ordinary	100%	Operation of licensed bars
Bierkeller Cheltenham ttd ^{va} Reg no. 08182884	England and Wales	Ordinary	100%	Operation of licensed bars
Retro Leisure (Rugby) Ltd ^{va} Reg no. 06546876	England and Wales	Ordinary	100%	Operation of licensed bars
Zinc Taunton ttd ^{va} Reg no. 10332341	England and Wales	Ordinary	100%	Operation of licensed bars
Chill/Whites Epsom ttd ^{va} Reg no. 09632522	England and Wales	Ordinary	100%	Operation of licensed bars
Element Thirty Limited ^{va} Reg no. 09440549	England and Wales	Ordinary	100%	Operation of licensed bars
South East Clubs Limited ^{va} Reg no. 08193531	England and Wales	Ordinary	100%	Operation of licensed bars
El Group Limited ^{va}	England and Wales	Ordinary	100%	Operation of licensed bars
Enterprise Inns Limited ^{va}	England and Wales	Ordinary	100%	Dormant
Gibbs Mew Limited ^{va}	England and Wales	Ordinary	100%	Dormant
Enterprise Inns Holding Company Limited ^{va}	England and Wales	Ordinary	100%	Dormant
Beck Holding Company Limited ^{va}	England and Wales	Ordinary	100%	Dormant
Century Inns Limited ^{va}	England and Wales	Ordinary	100%	Dormant
El Publican Services Limited ^{va}	England and Wales	Ordinary	100%	Intermediate supply company
Unique Pubs Limited ^{va} Reg no. 03733077	England and Wales	Ordinary	100%	Investment holding company
Unique Pub Properties Alpha Limited ^{va}	England and Wales	Ordinary	100%	Dormant
Unique Pub Properties Beta Limited ^{va}	England and Wales	Ordinary	100%	Dormant
Unique Pub Properties Gamma Limited ^{va}	England and Wales	Ordinary	100%	Dormant
Unique Pub Properties Theta Limited ^{va}	England and Wales	Ordinary	100%	Dormant
Voyager Pub Group Holdings Limited ^{va} Reg no. 04154855	England and Wales	Ordinary	100%	Investment holding company
West Midlands Taverns (Holdings) Limited ^{va}	England and Wales	Ordinary	100%	Dormant
Voyager Pub Group Limited ^{va} Reg no. 04066151	England and Wales	Ordinary	100%	Investment holding company
Unique Pub Investments Limited ^{va} Reg no. 03733058	England and Wales	Ordinary	100%	Investment holding company
Unique Pub Properties Limited ^{va}	England and Wales	Ordinary	100%	Ownership of licensed properties
The Unique Pub Finance Company plc ^{va}	England and Wales	Ordinary Cumulative preference shares	100%	Financing company
Enterprise Managed Investments Limited ^{va} Reg no. 08805929	England and Wales	Ordinary	100%	Investment holding company
Hush Heath Inns Limited ^{va}	England and Wales	Ordinary	51%	Operation of licensed bars

Notes (continued)

15 Investments in subsidiaries (continued)

Name of company	Country of incorporation	Class of shares held	Proportion held	Nature of business
Old Spot Pub Company Limited [^]	England and Wales	Ordinary	75%	Operation of licensed bars
Social Cellar (Gamma) Limited ^{*^}	England and Wales	Ordinary	100%	Dormant
Marmalade Pubs Limited [^]	England and Wales	Ordinary	75%	Operation of licensed bars
Dirty Liquor Alpha Limited ^{*^}	England and Wales	Ordinary	51%	Dormant
Dirty Liquor Limited [^]	England and Wales	Ordinary	75%	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
Social Cellar Limited ^{*^}	England and Wales	Ordinary	100%	Dormant
Imagegold Limited ^{*^}	England and Wales	Ordinary	100%	Dormant
Bermondsey Pub Company Limited ^{#^} Reg no. 08836925	England and Wales	Ordinary	100%	Operation of licensed bars
The Craft Union Pub Company Limited ^{#^} Reg no. 09429990	England and Wales	Ordinary	100%	Operation of licensed bars
Vixen Pub Company Limited ^{#^} Reg no. 11539726	England and Wales	Ordinary	100%	Operation of licensed bars
Hippo Inns Limited [^]	England and Wales	Ordinary	75%	Operation of licensed bars
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

Companies denoted here have taken a parental guarantee and are not audited. The parent company, Stonegate Pub Company Pikco Holdings Limited, has guaranteed the liabilities of the subsidiaries denoted above in order they qualify for the exemption from individual audit under Section 479A of the Companies Act in respect of the 52 week period ended 27 September 2020.

* Companies denoted here are dormant subsidiaries which are exempt from the requirements relating to the audit of the accounts under section 479A of the Companies Act 2006.

[^] Companies denoted here have a registered address of 3 Monkspath Hall Road, Solihull, United Kingdom, B90 4SJ.

> Companies denoted here have a registered address of Cricket Square PO BOX 2681, Grand Cayman, Ky1-1111, Cayman Islands.

Notes (continued)

16 Deferred tax assets and liabilities

Movement in deferred tax during the period is as follows:

	27 September 2020	29 September 2019
Group	£m	£m
At beginning of period	(21)	(14)
Credited to income statement	95	1
Credited / (charged) to equity	-	1
Acquisitions (note 14)	(192)	(9)
At end of period	(118)	(21)

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

Deferred tax assets	Fair value debt adjustments	Deferred interest deductions	Tax losses	Retirement benefit liabilities	Temporary differences	Total
Group	£m	£m	£m	£m	£m	£m
At 30 September 2018	-	-	1	1	-	2
Charged to income statement	-	-	-	(1)	-	(1)
Recognised in other comprehensive income	-	-	-	1	-	1
At 29 September 2019	-	-	1	1	-	2
(Charged)/credited to income statement	(3)	48	12	-	13	70
Recognised as part of business combinations	20	-	-	-	-	20
At 27 September 2020	17	48	13	1	13	92

Deferred tax liabilities	Intangibles	Property, plant and equipment	Total
Group	£m	£m	£m
At 30 September 2018	3	12	15
Credited to income statement	-	(1)	(1)
Recognised as part of business combinations	-	9	9
At 29 September 2019	3	20	23
Charged / (credited) to income statement	2	(27)	(25)
Recognised as part of business combinations	-	212	212
At 27 September 2020	5	205	210

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

At the period end the Group had a net deferred tax liability of £118 million (2019: liability of £21 million) and an unrecognised deferred tax asset of £1 million relating to unutilised losses in Intertain Limited.

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. In the 11 March 2020 Budget, it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020. The deferred tax liability at 27 September 2020 has been calculated based on these rates.

Notes (continued)

17 Inventories

	Group		Company
	27 September 2020	29 September 2019	27 September 2020
	£m	£m	£m
Goods held for resale	17	13	-
	17	13	-

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

The Group consumed £197 million of inventories during the period (2019: £212 million) and charged £2 million to the income statement for the write-down of inventories during the period, as a result of Covid-19 (2019: £Nil).

18 Financial assets

	Group		Company
	27 September 2020	29 September 2019	27 September 2020
	£m	£m	£m
Net investment in sublease	2	-	-
	2	-	-
Non-current:			
Other loans receivable	1	-	-
Net investment in sublease	6	-	-
	7	-	-

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

19 Trade and other receivables

	Group		Company
	27 September 2020	29 September 2019	27 September 2020
	£m	£m	£m
Trade receivables	47	7	-
Amounts due from parent undertakings	2	2	-
Amounts due from subsidiary undertakings	-	-	14
Other receivables	21	10	-
Prepayments and accrued income	21	22	-
Current tax receivable	5	-	-
	96	41	14
Due in more than one year:			
Trade receivables	3	-	-
Amounts due from parent undertakings	6	6	-
	9	6	-

Notes (continued)

19 Trade and other receivables (continued)

Included within trade receivables is £3 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 parent undertakings is a balance of £2 million owing from Stonegate Pub Company Holdings Limited, the immediate parent company, a company incorporated in the Cayman Islands.

There is also an amount of £14 million owing to the Company from Stonegate Pub Company Pikco Limited, the Company's immediate subsidiary, relating to loan notes held by management.

Included within amounts due from parent undertakings in more than one year is £6 million (2019: £6 million) expected to be recovered in more than 12 months. This relates to a loan provided on 4 April 2019 to Stonegate Pub Company Holdings Limited, the immediate parent company, a company incorporated in the Cayman Islands. The loan is repayable on 4 April 2022 and charging annual interest of LIBOR +2.50%.

20 Trade and other payables

	Group		Company
	27 September 2020	29 September 2019	27 September 2020
	£m	£m	£m
Trade payables	96	66	-
Amounts due to parent undertakings	14	-	14
Other taxation and social security	55	20	-
Other payables	65	18	-
Accruals	155	36	-
	385	140	14

Included in amounts due to parent undertakings is a balance of £14 million owing to Stonegate Pub Company Holdings Limited, the immediate parent company, a company incorporated in the Cayman Islands, relating to loan notes held by management.

Included within accruals at 27 September 2020 is £17 million relating to costs incurred in connection with the acquisition of Ei Group Limited and the associated refinancing (see note 7) and accrued interest on the Group's external debt of £46 million.

Notes (continued)

21 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 22.

	Group		Company
	27 September	29 September	27 September
	2020	2019	2020
	£m	£m	£m
Current liabilities			
Bank overdrafts	-	14	-
Revolving credit facility	-	3	-
Securitised bonds	57	-	-
Lease liabilities	42	-	-
	99	17	-
Non-current liabilities			
Secured loan notes issued by Stonegate Pub Company Financing plc	-	739	-
Revolving credit facility	172	-	-
Securitised bonds	698	-	-
Senior secured notes issued by Stonegate Pub Company			
Financing 2019 plc	971	-	-
Privately placed notes issued by Stonegate Pub Company			
Financing 2019 plc	506	-	-
Euro floating rate notes issued by Stonegate Pub			
Company Financing 2019 plc	273	-	-
Senior term loan	176	-	-
Second lien facility	389	-	-
PIK facility	328	-	-
Lease liabilities	763	-	-
	4,276	739	-

Non-current liabilities include £175 million drawn down from the Group's revolving credit facility which are shown net of debt issue costs of £3 million. Annual interest of 3 months LIBOR +3% is charged and the facility expires on 12 September 2024. In the prior period non-current secured loan notes are shown net of debt issue costs of £6 million.

As part of the adoption of IFRS 16 current lease liabilities of £25 million and non-current lease liabilities of £521 million have been recognised having been discounted using the weighted-average rate of 5.26%.

Terms and debt repayment schedule:

			Principal outstanding		
	Principal		Group		Company
	borrowed	Year of	27 September	29 September	27 September
	£m	maturity	2020	2019	2020
			£m	£m	£m
Secured fixed notes	405	2022	-	405	-
Secured floating notes	340	2022	-	340	-
Securitised bonds - A4	263	2027	258	-	-
Securitised bonds - M	225	2024	225	-	-
Securitised bonds - N	190	2032	190	-	-
Senior secured notes	950	2025	950	-	-
Privately placed notes	500	2025	500	-	-
Euro floating rate notes	274	2025	274	-	-
Senior term loan	179	2027	178	-	-
Second lien facility	400	2028	400	-	-
PIK facility	325	2028	325	-	-
			3,300	745	-

Notes (continued)

21 Borrowings (continued)

Changes in liabilities from financing activities:

Group	Loans and borrowings £m	Lease liabilities £m	Total £m
Balance at 29 September 2019	742	-	742
Adjustment on initial application of IFRS 16	-	546	546
Adjusted balance at 30 September 2019	742	546	1,288
Changes from financing cash flows			
Proceeds from loans and borrowings	2,800	-	2,800
Repayment of borrowings	(1,962)	-	(1,962)
Payment of lease liabilities	-	-	-
Interest paid included in cash flows	(121)	(22)	(143)
Transaction costs related to loans and borrowings	(120)	-	(120)
Total changes from financing cash flows	597	(22)	575
Non-cash changes			
Changes arising from obtaining control of subsidiaries (note 14)	1,992	238	2,230
Transfer to non-current assets held for sale	-	(5)	(5)
Lease modifications and re-measurements	-	9	9
Accrued transaction costs	5	-	5
Amortisation of fair value on securitised bonds	(11)	-	(11)
Interest expense included in finance costs	166	39	205
Interest included in accruals at the period end	(18)	-	(18)
Debt modifications	103	-	103
Fair value of warrants deducted from PIK facility	(6)	-	(6)
Total non-cash changes	2,231	281	2,512
Balance at 27 September 2020	3,570	805	4,375

Group	Loans and borrowings £m
Balance at 30 September 2018	689
Changes from financing cash flows	
Proceeds from loans and borrowings	201
Repayment of borrowings	(143)
Payment of lease liabilities	-
New lease liabilities	-
Transaction costs related to loans and borrowings	(5)
Total changes from financing cash flows	53
Non-cash changes	
Changes in fair value	-
Interest expense	-
Total non-cash changes	-
Balance at 29 September 2019	742

Notes (continued)

21 Borrowings (continued)

On 3 March 2020 Stonegate Pub Company Financing 2019 plc, a public limited company incorporated under the laws of England and Wales, received £1,450 million bridging loans charging an annual interest rate of 3 months LIBOR + between 5% and 5.25%.

Stonegate Pub Company Bidco Limited, a private limited company incorporated under the laws of England and Wales, received a senior term loan of £450 million on 3 March 2020 charging an annual interest rate of LIBOR + 5.25%.

On 3 March 2020 Stonegate Pub Company Bidco Limited received a £400 million second lien facility charging an annual interest rate of LIBOR + 8.5% and maturing on 4 March 2028.

On 4 March 2020 Stonegate Pub Company Pikco Limited, a private limited company incorporated under the laws of England and Wales and a company whose immediate parent company is Stonegate Pub Company Pikco Holdings Limited, received a £325 million PIK facility charging an annual interest rate of 12% and maturing on 4 September 2028.

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

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

The securitised bonds were not repaid as part of the acquisition, therefore, in accordance with IFRS 3, they have been included on the balance sheet at fair value. As the securitised bonds are traded in an active market, a fair value of £778 million was calculated based on the 2 March closing bond prices multiplied by the quantity of each bond held at the acquisition date, resulting in a fair value adjustment required of £92,515,000.

The notes will mature between 2024 and 2032.

On 13 July 2020 £500 million of the £1,450 million bridging loans was re-financed for privately placed fixed rate notes charging an annual interest rate of 8%. The notes will mature on 13 July 2025 and are listed on the Channel Islands stock exchange.

On 31 July 2020 the remaining £950 million of the bridging loans was re-financed for senior secured fixed rate notes charging an annual interest rate of 8.25%. The notes will mature on 31 July 2025 and are listed on the Channel Islands stock exchange.

The changes to the bridging debt were considered in line with the requirements of IFRS 9 and management have concluded the changes are to be accounted for as a non-substantial modification to the existing debt. As a result, the amortised cost of the liability was recalculated and a loss of £89 million recognised in exceptional finance costs in the income statement.

On 31 July 2020 €300 million of the senior term loan was re-financed for floating rate notes charging an annual interest rate of 3 months Euribor +5.75%. The notes will mature on 31 July 2025 and are listed on the Channel Islands stock exchange. Management have concluded the modification of the debt from sterling to euros to be a substantial modification. A loss on extinguishment of £16 million has been recognised in exceptional finance costs in the income statement.

On 31 July 2020 Stonegate Pub Company Financing 2019 plc entered into three cross currency interest rate swaps related to its euro floating rate notes fixing the interest rate at 6.8116%, 6.8153% and 6.7332% for the loan amounts of £82 million, £55 million and £137 million respectively.

Furthermore, on 25 September 2020 the remaining senior term loan was converted into a €196 million loan. Management have assessed the redenomination of the debt into euros to be a substantial modification. A gain on extinguishment of £2 million has been recognised in exceptional finance costs in the income statement.

Notes (continued)

22 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 27 September 2020 and 29 September 2019.

	Group		Company	
	Fair value	Carrying value	Fair value	Carrying value
	2020	2020	2020	2020
	£m	£m	£m	£m
Financial assets - loans and receivables				
Trade receivables	50	50	-	-
Other receivables	21	21	-	-
Amounts due from group undertakings	8	8	14	14
Cash and cash equivalents	294	294	-	-
	373	373	14	14
Financial liabilities				
Trade payables	96	96	-	-
Other payables	65	65	-	-
Amounts due to group undertakings	14	14	14	14
Interest rate swap	3	3	-	-
Warrants	2	2	-	-
Securitised bonds - A4	271	284	-	-
Securitised bonds - M	232	244	-	-
Securitised bonds - N	188	227	-	-
Senior secured notes	864	971	-	-
Privately placed notes	460	506	-	-
Euro floating rate notes	231	273	-	-
Senior term loan	176	176	-	-
Second lien facility	389	389	-	-
PIK facility	328	328	-	-
Bank loans and overdrafts	172	172	-	-
Lease liabilities	805	805	-	-
	4,296	4,555	14	14

Notes (continued)

22 Financial instruments (continued)

	Group	
	Fair value 2019 £m	Carrying value 2019 £m
Financial assets - loans and receivables		
Trade receivables	7	7
Other receivables	10	10
Amounts due from group undertakings	6	6
Cash and cash equivalents	22	22
	45	45
Financial liabilities		
Trade payables	66	66
Other payables	18	18
Amounts due to group undertakings	-	-
Interest rate swap	-	-
Warrants	-	-
Secured fixed notes	396	405
Secured floating notes	338	340
Bank loans and overdrafts	17	17
	835	846

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.

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)

22 Financial instruments

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 securitised bonds; senior secured notes; privately placed 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 senior term loan, 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:

	27 September 2020 £m
Group	
Cross currency interest rate swaps	
Non-current liabilities	3
	3
	27 September 2020 £m
Group	
Warrants	
Non-current liabilities	2
	2

The cross-currency interest rate swaps replace the Euribor rate on the Group's €300 million floating rate loan notes with a fixed rate. The Group has chosen not to apply hedge accounting for its cross-currency interest rate swap given the additional costs of meeting the extensive documentation requirements of IFRS 13. Consequently, movements in fair value are recognised in the income statement.

On 4 March 2020 Stonegate Pub Company Pikco Limited received a £325 million PIK facility, maturing on 4 September 2028. In addition to the PIK Loan, Stonegate Pub Company Pikco Limited issued warrants to the lenders which allocated to the lenders notional ordinary shares that represent equity of Stonegate Pub Company Holdings Limited, the immediate Parent Company. Settlement of the notional securities shall take place when a liquidity event occurs. Under IFRS 13 the fair value of the warrants were calculated at inception giving a value of £6 million and subsequently revalued at the period end to £2 million. The movement in the fair value of £4 million is recognised in the income statement.

Notes (continued)

22 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 27 September 2020					
Interest-bearing loans and borrowings					
- capital	38	100	1,972	1,190	3,300
- interest	230	233	662	728	1,853
- cross currency interest rate swaps	-	-	3	-	3
Revolving credit facility	-	-	172	-	172
Trade payables	96	-	-	-	96
Other payables	65	-	-	-	65
	429	333	2,809	1,918	5,489
At 29 September 2019	£m	£m	£m	£m	£m
Interest-bearing loans and borrowings					
- capital	-	-	745	-	745
- interest	40	40	19	-	99
Bank overdrafts	14	-	-	-	14
Revolving credit facility	3	-	-	-	3
Trade payables	66	-	-	-	66
Other payables	18	-	-	-	18
	141	40	764	-	945

Interest rate risk

The Group finances its operations through a mixture of trading cash, bank overdraft facilities and fixed and floating secured loan notes. 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. The Group seeks to minimise the impact of interest rate fluctuations from its euro floating rate loan notes and uses interest rate swaps to manage exposure.

Notes (continued)

22 Financial instruments (continued)

Security

The revolving credit facility; PIK facility; senior secured notes; privately placed notes; euro floating notes; euro senior term loan 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 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, 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 27 September 2020 is property, plant and equipment £3,056 million, investment property £104 million and non-current assets held for sale £40 million.

Covenants

The Group is subject to a number of financial covenants in relation to its borrowing facilities. There are four 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. During the year the Group completed a consent solicitation exercise whereby bondholders voted overwhelmingly in favour of an amendment to the calculation of the EBITDA used in the DSCR covenant calculation to mitigate the impact of the mandated closure of pubs during the year. The Group has met both covenants during the financial year.

The other two covenants relate to the RCF. These comprise a Consolidated Net Leverage Ratio that is tested quarterly and a Minimum Liquidity covenant that is tested monthly whilst the RCF is more than 40% drawn. During the year the Group agreed waivers with the RCF lenders to mitigate the impact of Covid-19 on the Consolidated Net Leverage Ratio. The Group met both covenants during the year.

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.

Notes (continued)

22 Financial instruments (continued)

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, gross of the doubtful debt provision, is as follows:

	Group		Company
	27 September 2020	29 September 2019	27 September 2020
	£m	£m	£m
Not past due	47	22	14
0-30 days past due	2	2	-
31-60 days past due	-	-	-
61-90 days past due	2	1	-
Greater than 60 days past due	25	-	-
	76	25	14

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.

	Group		Company
	27 September 2020	29 September 2019	27 September 2020
	£m	£m	£m
Provision as at 30 September 2019	-	-	-
Transfer on business combinations	2	-	-
Increase in provision during the year	4	-	-
Provision utilised during the year	-	-	-
Provision released during the year	(1)	-	-
Provision as at 27 September 2020	5	-	-

Notes (continued)

23 Provisions

Group	Onerous site costs £m	Health and safety claims £m	Total £m
At 30 September 2018	11	5	16
Additions	2	1	3
Utilised	(1)	(1)	(2)
Released	(3)	(1)	(4)
At 29 September 2019	9	4	13
Adjusted to right-of-use assets on adoption of IFRS 16	(7)	-	(7)
Adjusted to retained earnings on adoption of IFRS 16	(1)	-	(1)
Released	-	(2)	(2)
At 27 September 2020	1	2	3

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 two years. These claims generally relate to minor incidents of personal injury at sites and the level of provision has been based on managements' expected future successful claim rate.

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

24 Share capital

	27 September 2020 £m
Called up, allotted and fully paid:	
2,496 ordinary shares of £1 each	-

In relation to the acquisition of Ei Group Limited on 3 March 2020 Stonegate Pub Company Pikco Holdings issued 1,400 ordinary shares at an aggregate subscription price of £740 million to its immediate parent company, Stonegate Pub Company Holdings Limited.

Furthermore, on 17 July 2020, the Company issued 95 ordinary shares at an aggregate subscription price of £50 million to its immediate parent company, Stonegate Pub Company Holdings Limited.

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.

Other reserves

Other reserves has arisen as a result of the Group reorganisation on 10 July 19.

Notes (continued)

25 Commitments

Capital commitments

Capital commitments for property, plant and equipment:

	27 September 2020 £m	29 September 2019 £m
Group		
Contracted but not provided	3	7

26 Leases

Leases as a lessee

Impacts on transition

The Group has initially adopted IFRS 16 Leases from 30 September 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. For further information on the Group's leases accounting policy see note 1.11.

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

	30 September 2019 £m
Right-of-use assets presented in property, plant and equipment	692
Operating leases	(150)
Trade and other receivables	(12)
Trade and other payables	8
Provisions	8
Lease liabilities	(546)
Retained earnings	-

Reconciliation between operating lease commitments and lease liability

The following table explains the difference between the operating lease commitments disclosed applying IAS 17 at 29 September 2019 and the lease liabilities recognised on adoption of IFRS 16 at 30 September 2019.

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

Notes (continued)

26 Leases (continued)

Impacts for the period

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment', the same line item as it presents underlying assets of the same nature that it owns. The following table sets out the movement in the Group's right-of-use assets during the period and the carrying value at 27 September 2020:

	Investment property	Non-current assets held for sale	Property, plant and equipment		Total
	£m	£m	Property £m	Vehicles £m	£m
Right-of-use-assets					
On transition to IFRS 16 at 30 September 2019	-	-	691	1	692
Additions	-	-	9	2	11
Additions through business combinations	21	3	309	2	335
Transfer to non-current assets held for sale	-	5	(5)	-	-
Depreciation charge for the year	-	-	(65)	(1)	(66)
Impairment	(1)	(1)	(27)	-	(29)
Derecognition	-	-	(4)	-	(4)
Balance at 27 September 2020	20	7	908	4	939

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

	2020 52 weeks £m
Leases under IFRS 16	
Interest expense on lease liabilities	39
Depreciation of right of use assets	66
Expenses relating to short-term leases	1
Expenses relating to leases of low-value assets	1
Expenses relating to variable lease payments not included in the measurement of lease liabilities	(1)
	106
	2019 52 weeks £m
Operating leases under IAS 17	
Lease expense	61
Sub-lease income presented in revenue	-
	61

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

	2020 52 weeks £m
Interest payments	22
Principal payments	-
Total cash outflow for leases	22

In relation to those leases under IFRS 16, for the 52 weeks ending 27 September 2020, the Group's operating profit metric improved by £21 million as the new depreciation expense is lower than the IAS 17 operating lease charge; however net finance costs are higher than this, at £39 million, such that net profit after tax is 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 compared to the previous IAS 17 reporting basis.

Notes (continued)

26 Leases (continued)

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:

	27 September 2020	29 September 2019
Group	£m	£m
Less than one year	1	-
In more than one year and less than two years	1	-
Between two and five years	3	-
More than five years	8	-
	13	-
Future finance cost	(5)	-
	8	-
Recognised as:		
Non current financial asset	6	-
Current financial asset	2	-
Total undiscounted lease receivable	8	-

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

	27 September 2020	29 September 2019
Group	£m	£m
Less than one year	95	-
In more than one year and less than two years	81	-
Between two and five years	158	-
More than five years	264	-
Total undiscounted lease receivable	598	-

Notes (continued)

27 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 £4 million (2019: £3 million). At the period end the Group had outstanding contributions payable to the schemes of £Nil (2019: £Nil).

Defined benefit pension schemes

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

A full actuarial valuation for the Laurel Pub Pension scheme was carried out as at 28 February 2017. For the purposes of IAS19 the actuarial valuation as at 28 February 2017, which was carried out by a qualified independent actuary, has been updated on an approximate basis to 27 September 2020.

A full actuarial valuation for the Yates Group Pension scheme was carried out as at 28 February 2017. For the purposes of IAS19 the actuarial valuation as at 28 February 2017, which was carried out by a qualified independent actuary, has been updated on an approximate basis to 27 September 2020.

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 (SOCl) and the consolidated balance sheet.

The amounts recognised in the balance sheet are as follows:

	27 September 2020	29 September 2019
	£m	£m
Laurel Pub Pension scheme		
Fair value of plan assets	86	88
Present value of defined benefit obligation	(93)	(93)
Liability in the scheme	(7)	(5)
Effect of asset ceiling	-	(3)
Net retirement benefit liability recognised in the balance sheet	(7)	(8)
Yates Group Pension scheme	£m	£m
Fair value of plan assets	14	14
Present value of defined benefit obligation	(13)	(13)
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	(6)	(7)

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)

27 Retirement benefits (continued)

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

	27 September 2020	29 September 2019
	£m	£m
Laurel Pub Pension scheme		
Present value of scheme liabilities at beginning of period	93	79
Expenses	-	-
Interest cost	2	2
Actuarial losses / (gains)	1	15
Benefits paid	(3)	(3)
Past service costs	-	-
Present value of scheme liabilities at end of period	93	93
Yates Group Pension scheme	£m	£m
Present value of scheme liabilities at beginning of period	13	13
Expenses	-	-
Interest cost	-	-
Actuarial losses / (gains)	-	1
Benefits paid	-	(1)
Past service costs	-	-
Present value of scheme liabilities at end of period	13	13
Total present value of scheme liabilities at end of period	106	106

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

	27 September 2020	29 September 2019
	£m	£m
Laurel Pub Pension scheme		
Fair value of scheme assets at beginning of period	88	76
Interest income	2	1
Return on plan assets excluding interest income	(3)	12
Contributions paid by employer	2	2
Benefits paid	(3)	(3)
Fair value of scheme assets at end of period	86	88
Yates Group Pension scheme	£m	£m
Fair value of scheme assets at beginning of period	14	13
Interest income	-	-
Return on plan assets excluding interest income	-	2
Contributions paid by employer	-	-
Benefits paid	-	(1)
Fair value of scheme assets at end of period	14	14
Total fair value of scheme assets at end of period	100	102

Notes (continued)

27 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 are as follows:

	2020 52 weeks £m	2019 52 weeks £m
Laurel Pub Pension scheme		
Past service costs	-	-
Interest cost	-	-
Expenses	-	-
Net cost	-	-
Yates Group Pension scheme		
Past service costs	-	-
Interest income	-	-
Expenses	-	-
Net income	-	-
Total net cost	-	-

Analysis of amounts recognised in the SOCI in the period:

	2020 52 weeks £m	2019 52 weeks £m
Laurel Pub Pension scheme		
Return on plan assets excluding interest income	(3)	12
Experience gains	-	-
Effects of changes in demographic assumptions	-	-
Effects of changes in financial assumptions	(2)	(15)
Effect of asset ceiling	4	(3)
Re-measurement losses recognised in the SOCI	(1)	(6)
Yates Group Pension scheme		
Return on plan assets excluding interest income	-	1
Experience gains	-	-
Effects of changes in demographic assumptions	-	-
Effects of changes in financial assumptions	-	(1)
Re-measurement gains recognised in the SOCI	-	-
Total re-measurement losses recognised in the SOCI	(1)	(6)

Cumulative amounts recognised in the SOCI:

	27 September 2020 £m	29 September 2019 £m
At beginning of period	(13)	(7)
Re-measurement losses in the period	(1)	(6)
At end of period	(14)	(13)

Notes (continued)

27 Retirement benefits (continued)

The history of experience adjustments on the schemes for the current financial period is as follows:

	2020	2019	2018	2017	2016
	£m	£m	£m	£m	£m
Laurel Pub Pension scheme					
Present value of retirement benefit liabilities	(93)	(93)	(79)	(84)	(90)
Fair value of plan assets	86	88	76	73	76
Net liability in the scheme	(7)	(5)	(3)	(11)	(14)
Experience adjustment on scheme liabilities	-	-	(1)	1	1
Percentage of scheme liabilities	0.5%	0.1%	1.4%	(0.9)%	(1.7)%
Experience adjustments on scheme assets	(3)	12	-	(2)	12
Percentage of scheme assets	(3.2)%	13.9%	(0.4)%	(2.6)%	16.2%
Yates Group Pension scheme					
	£m	£m	£m	£m	£m
Present value of retirement benefit liabilities	(13)	(13)	(13)	(14)	(15)
Fair value of plan assets	14	14	13	14	15
Net asset in the scheme	1	1	-	-	-
Experience adjustment on scheme liabilities	-	-	-	-	-
Percentage of scheme liabilities	0.4%	0.1%	2.1%	(2.7)%	(1.5)%
Experience adjustments on scheme assets	-	1	-	-	1
Percentage of scheme assets	(1.7)%	10.4%	(0.9)%	(1.9)%	6.7%

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 2023. The Group will meet the other annual fees and expenses (excluding the annual PPF levy) incurred by the scheme subject to a cap of £260,000 per scheme year.

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

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

	27 September 2020	29 September 2019
Male retiring in 2020	21.0 years	21.0 years
Female retiring in 2020	23.0 years	22.9 years
Male retiring in 2045	22.8 years	22.8 years
Female retiring in 2045	24.9 years	24.9 years

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

	27 September 2020	29 September 2019
Laurel Pub Pension Scheme		
Discount rate	1.6%	1.9%
Rate of increase in pension payment	2.8%	3.1%
Inflation (RPI)	2.9%	3.2%
Inflation (CPI)	2.2%	2.2%
Yates Group Pension Scheme		
Discount rate	1.6%	1.9%
Rate of increase in pension payment	2.2%	2.2%
Inflation (RPI)	2.9%	3.2%
Inflation (CPI)	2.2%	2.2%

Notes (continued)

27 Retirement benefits (continued)

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

	2020 £m	2019 £m
Laurel Pub Pension Scheme		
Equities	36	37
Bonds	49	50
Cash	1	1
Fair value of plan assets	86	88
Actual return on plan assets	(1)	13
Yates Group Pension Scheme		
Equities	6	6
Bonds	8	8
Cash	-	-
Other	-	-
Fair value of plan assets	14	14
Actual return on plan assets	-	2

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	
		27 September 2020	29 September 2019
		£m	£m
Laurel Pub Pension Scheme			
Discount rate	Increase of 0.10% p.a.	(2)	(2)
Rate of inflation	Increase of 0.10% p.a.	2	2
Rate of mortality	Increase in life expectancy of 1 year	4	3
Yates Group Pension Scheme			
Discount rate	Decrease of 0.25% p.a.	-	-
Rate of inflation	Increase of 0.25% p.a.	-	-
Rate of mortality	Increase in life expectancy of 1 year	-	-

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 27 September 2020 is 19 years for the Laurel Pub Pension scheme (2019: 19 years) and 12 years for the Yates Group Pension scheme (2019: 12 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.

Notes (continued)

28 Related party transactions

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

Transactions with senior management personnel

Senior management comprises the executive directors and management board. There was no remuneration or contributions to pension schemes paid for the statutory directors during the financial period. The senior management personnel compensation is as follows:

	2020 52 weeks £m	2019 52 weeks £m
Salaries and short-term employee benefits	6	18
Post-employment pension benefits	-	-
	6	18

There was no other remuneration paid in the current period. In the prior year salaries and short-term employee benefits included the discretionary exit bonus described in note 7. There was no other remuneration paid in either the current or prior period.

Other related party transactions

During the year Stonegate Pub Company Holdings Limited subscribed for shares in Stonegate Pub Company Pikco Holdings Limited for the value of £790 million and paid up in full.

Transactions with Group undertakings

During the year the Group was invoiced management charges of £1 million (2019: £2 million) by TDR Capital LLP. The amount outstanding at 27 September 2020 was £Nil (2019: £ Nil).

The Group also operated a handful of public houses on behalf of entities affiliated with investment funds managed by TDR Capital LLP, known as Cubitt House Limited. Purchases for these sites totalled £259,000 (2019: £398,000) and recharges were £251,000 (2019: £350,000), resulting in a balance owing from entities affiliated with investment funds managed by TDR Capital LLP of £93,000 (2019: £85,000).

Included in trade and other receivables is a balance of £2 million owing from Stonegate Pub Company Holdings Limited, the immediate parent company.

Included in trade and other payables is a balance of £14 million owing to Stonegate Pub Company Holdings Limited, the, relating to loan notes held by management.

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

29 Management Incentive Plan

During the prior period, the Group headed by Stonegate Pub Company Limited 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 while they are still employed by the Group. 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). 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 consider it reasonable to use a minimum vesting period of 5 years.

Notes (continued)

29 Management Incentive Plan (continued)

The scheme is operated by the Group's ultimate owners and was established through subscription to shares in the Group's immediate parent company. A total of 1.5 million shares have been issued at an aggregate price of £16.3 million (£10.93 per share). The scheme was established on 28 February 2019. There have been no forfeits, no expiries, no exercises and no further grants since this point, however there have been a handful of leavers. Information on the fair value at the date of grant has been obtained through the transaction price relating to the acquisition of the Group by a new private equity fund (TDR Capital Stonegate L.P.) at fair value from the previous private equity fund (TDR Capital II). The return available to the participating employees increases at a greater rate depending on the extent of growth in the equity value. No dividends will accrue under this award. The excess of the fair value at the date of grant of the awards compared to the effective exercise price is not significant. This is based on management's assessment that any reasonable volatility measure, the estimated vesting terms and a risk free rate of around 1% would not have a material impact on fair value. The aggregate exercise price of £16.3 million is broadly equivalent to the gross fair value arising and consequently no income statement charge has been made.

There are no other share based payment schemes.

30 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.

31 Post balance sheet events

Subsequent to the period end, on 2 October 2020 Stonegate Pub Company Bidco Limited entered into a cross currency swap to minimise exposure to currency risk as a result of the amendment of the Group's senior term loan to a Euro loan for €196 million charging an annual interest rate of 5.75% + 3 month EURIBOR and maturing on 4 March 2027.

Post period end in response to the Covid-19 pandemic, the Government has continued to impose trading restrictions on the hospitality industry which has meant that proportions of the Group's estate have been closed for some of all of the period after 27 September 2020. Management has taken actions to mitigate the consequential and significant impact on both profit and cash flow of these closures. These actions include reducing the Group's cash outflows in non-essential areas, accessing government's support packages in order to safeguard employment and strengthening both short-term and long-term financing and also offering further rent concessions and/or trade credits to support its publicans of £16 million.

On 19 November 2020 Stonegate Pub Company Financing 2019 plc issued a further £120 million of senior secured fixed rate notes due 2025 and charging an annual interest rate of 8.25%. The proceeds from the issue will be used for additional liquidity and general corporate purposes.

On 20 November 2020, the High Court handed down a further judgment on the Guaranteed Minimum Pension (GMP) equalisation case in relation to the Lloyds banking group pension schemes. This follows from the original judgment in October 2018 which confirmed that schemes need to equalise pensions for the effect of unequal GMPs between males and females. This latest judgment confirms that Defined Benefit (DB) schemes which provide GMPs need to revisit and where necessary top up historic Cash Equivalent Transfer Values that were calculated based on unequalised benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The scheme has experienced historical transfers out which will be subject to adjustment as a result of this second ruling. The trustees will be considering this at a future meeting and decisions will be made as to the next steps. Any adjustments necessary will be recognised in the accounts for the period ended 26 September 2021. It is not possible to estimate the value of any such adjustments at the time of signing.

Notes (continued)

32 Acquisition balance sheet

	30 September 2018 £m
Assets	
Non-current assets	
Property, plant and equipment	531
Investment property	-
Brand	5
Operating leases	120
Goodwill	125
Financial assets	-
Trade and other receivables	-
Retirement benefit surplus	1
Deferred tax asset	-
	782
Current assets	
Inventories	12
Trade and other receivables	32
Cash and cash equivalents	26
Financial assets	-
	70
Non-current assets held for sale	-
Total assets	852
Liabilities	
Current liabilities	
Trade and other payables	(116)
Borrowings	(104)
Derivative financial instruments	-
	(220)
Non-current liabilities	
Borrowings	(591)
Derivative financial instruments	-
Deferred tax liabilities	(14)
Retirement benefit obligations	(4)
Provisions	(16)
	(625)
Total liabilities	(845)
Net assets	7
Equity	
Called up share capital	-
Share premium	194
Merger reserve	(108)
Retained earnings	(79)
Total equity attributable to owners of the parent company	7
Non-controlling interests	-
Total equity	7