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stonegate

PUB COMPANY

Annual report and financial statements

For the 52 weeks ended 24 September 2017

Registered number FC029833

Contents

Company information

Directors
Manjit Dale
Ian Payne
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Strategic report

The Directors present their strategic report on the Group for the 52 weeks ended 24 September 2017.

Stonegate Pub Company Limited and its subsidiaries (together "the Group") is the second largest managed pub operator on the high street. The Group had 703 operating sites at the year-end (2016: 654) spread across the United Kingdom, with approximately 76% of its pubs being located in town centres, which provides it with the second largest pub estate located in town centres of any UK pub operator.

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

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

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

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

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

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

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

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

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

Strategic report *(continued)*

Vision and Values

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

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

Strategy

The Group is the second largest managed pub operator on the high street in terms of number of pubs. It has developed a range of urban and suburban formats built on its understanding of what its customers want. The Group's approach involves identifying and applying the right format for each of its operating sites in order to *deliver the best customer experience whilst maximising site profitability.*

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

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

Business review

The results for the Group for the 52 weeks ended 24 September 2017 are shown in the consolidated income statement on page 14. Pre-exceptional operating profit for the period was £42,817,000 (2016: £46,372,000). Post-exceptional operating profit for the period was £25,180,000 (2016: £18,527,000). Loss before tax was £22,223,000 (2016: loss of £12,539,000). The financial position of the Group is set out in the consolidated balance sheet on page 16 which shows net assets of £6,773,000 (2016: £81,122,000). Net decrease in cash and cash equivalents in the period was £25,335,000 (2016: increase of £18,903,000).

Several key events for the Group contributed to these results during the period; the acquisition of Intertain Limited, Large Bars Limited and Bar Holdings Limited in December 2016, April 2017 and September 2017 respectively; a £595,000,000 refinancing in March 2017 and a £93,871,000 dividend payment in May 2017.

The Group is the second largest managed pub operator on the high street in terms of number of pubs. It has developed a range of urban and suburban formats built on its understanding of what its customers want. The Group's approach involves identifying and applying the right format for each of its operating sites in order to deliver the best customer experience whilst maximising site profitability.

Our seventh year of trading remained strong with the business seeing continued year on year sales, margin and profit growth. There remained significant investment within the estate with site development capex spend of £47.7m (2016: £26.4m). The Group's 2017 return on investment was 35.4% (2016: 40.5%).

Strategic report *(continued)*

Business review *(continued)*

On 5 December 2016 Stonegate Pub Company issued18,488,745 ordinary shares of £0.01 at an aggregate price of £40,250,000 in order to acquire the Intertain Limited group on 6 December 2016. Intertain Limited operates 29 sites across the UK, most of which trade under the Walkabout brand. The estate is a very good fit with the Group's existing portfolio of pubs and bars. It also gives the opportunity to trade in some towns and cities in which Stonegate Pub Company Limited did not have any sites, such as Carlisle and Lichfield.

On 16 March 2017 the Group completed a successful refinancing of its debt facilities and received £595,000,000 from the issue of fixed and floating loan notes, maturing in 2022. The proceeds from the offering were used, amongst other things, to pay a dividend to its parent company in return for the cash injection via the share issue to purchase Intertain Limited.

During the period Stonegate Pub Company Limited also purchased the issued share capitals of Large Bars Limited and Bar Holdings Limited, each holding a small number of London-based sites.

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

Financial KPIs – Group	**2017 52 weeks**	**2016 52 weeks**
Drink Sales Growth (like for like)	3.1%	3.9%
Food Sales Growth (like for like)	(2.3)%	(0.1)%
Turnover Growth (like for like)	2.0%	3.0%
Return on Investment (ROI)	35.4%	40.5%

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

The return on Investment represents for all pubs invested during the three-year period preceding of the date of the investment, the difference between the post-investment EBITDA and the 52 week pre-investment EBITDA, divided by the respective aggregate Investment Capital. Pubs that have traded for less than 52 weeks post-investment, are excluded from the definition.

Adjusted EBITDA Reconciliation	**52 weeks ended 24 September 2017**	**52 weeks ended 25 September 2016**
	£m	**£m**
Operating profit before depreciation, amortisation, impairment and loss on sale of non-current assets	81.7	73.4
Acquisition costs	5.5	7.0
Restructuring and integration costs	4.0	6.1
Management fees	2.0	1.5
Pension scheme service costs	0.9	0.6
Losses on disposed/non trading sites	1.2	1.5
Other non-recurring costs	1.9	2.1
Onerous leases	6.3	3.8
Adjusted EBITDA	**103.5**	**96.0**

Strategic report *(continued)*

Adjusted EBITDA Reconciliation *(continued)*

Adjusted EBITDA represents profit before finance income, finance costs, taxation, depreciation, amortisation, impairment and the other items shown above. The directors consider the adjusted EBITDA gives a better indication of the underlying performance of the business.

Non-financial KPIs

As well as providing a fantastic experience to our customers Stonegate is also committed to a high standard of health and safety. Therefore the board conducts customer research on an on-going basis, as well as monitoring complaints received and internal health and safety audit results. Sites are assessed on a regular basis on food safety, licensing, fire safety, external play area safety and hotel safety. Over 79% of sites (2016: 79%) scored over 90% in our internal health and safety audits. We have 94% of our sites rated as good or above on the Food Standards Agency's website.

	2017 **52 weeks**	**2016** **52 weeks**
Internal Health and Safety Audit Scores	**Number of sites**	**Number of sites**
Visited in the period	1,336	1,295
Green (scoring over 90%)	1,049	1,018
Amber (scoring 80 - 90%)	170	169
Red (scoring 50 - 80%)	110	98
Black (scoring under 50%)	7	10

Financial Position

The financial position of the Group is set out in the consolidated balance sheet on page 16 which shows net assets of £6,773,000 (2016: £81,122,000). Closing cash and cash equivalents were £3,551,000 (2016: £28,886,000) and non-current borrowings were £589,835,000 (2016: £472,306,000).

The Group is financed by fixed and floating loan notes listed, listed on the Channel Islands stock exchange. During the year the Group undertook a refinancing and received £595,000,000 from the issue of £405,000,000 fixed loan notes charging an annual interest rate of 4.875% and £190,000,000 floating loan notes charging an annual interest rate of 3 months LIBOR + 4.375%. The notes will mature on 15 March 2022. Further information on the Group's borrowings is included in note 18.

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

Principal risks and uncertainties

The 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 main risks can be analysed as:

Industry specific

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

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

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

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

The referendum decision to trigger Article 50 to begin the process of leaving the EU does bring a degree of risk and uncertainty to the business. This is due to potential impacts on the business due to uncertainty in the political and economic environment. Initial impacts seen are around movement of people, exchange rates and the cost of imports which we will need to commercially manage through negotiation and retail pricing. There is nothing seen to date to suggest any material impacts from the referendum.

Group specific

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

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

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

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

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

Strategic report *(continued)*

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

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

Corporate Social Responsibility

Responsible Service

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

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

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

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 52 weeks ended 24 September 2017 we collected 901,212 litres of used cooking oil, or 831 metric tonnes (2016: 762 tonnes). This is the equivalent of saving 1,909 tonnes of carbon (2016: 1,412 tonnes). Stonegate 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, 49% goes to glass recycling facilities, 10% to dry mixed product recycling and 7% food. The remaining 34% tonnes is of General Non Hazardous Industrial classification. Of this 30% is consigned to Energy Recovery operations, 66% diverted from landfill to other recovery facilities. The remaining 4% is currently land filled. Veolia continue to aspire to zero Waste to landfill by 2018 for the Stonegate estate.

Reducing energy consumption

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

During the year we continued the roll-out of smart meters in majority of our outlets. We will use these in order to manage usage, in order to be as efficient as possible to help reduce consumption.

Strategic report *(continued)*

Corporate Social Responsibility *(continued)*

Social and community issues

Charitable activities

Our local pubs are at the heart of the communities and as part of our service we like to contribute to these communities. During the period to 24 September 2017 our pubs have raised £73,000 (2016: £98,000) for several local and national charities. These include Parkinson's, Care for Kids and Mind.

Not only are our pubs involved in charity work. Our head office in Luton demonstrated outstanding charitable giving this year and continued a close relationship with the local Children's Hospital, Keech Cottage Hospice.

As a principle, all of our supplier gifts received are sold on a regular basis and all proceeds are given to charity.

Supporting our students

Nationally, Stonegate gave nearly £38,000 (2016: £16,000) sponsorship to student unions and student sports clubs. Throughout the period we also supported local football teams; netball teams; tennis and rugby teams across the UK.

Future Outlook

Trading for drink led businesses continues to outperform the overall retail sector as well as food led businesses in 2017. We expect that to continue in 2018. The reason for this is that although the food market as a whole is growing more than drink, we believe that there is an oversupply in this market, leading to an extremely competitive environment and like for like sales growth being difficult to achieve. In contrast we are seeing value growth in drink as people are looking for more choice and "premiumising" their drink of choice.

While the cost pressures still exist from National Living Wage, rates valuation and duty increases, Stonegate Pub Company, through building scale and investing in our estate continues to be well placed to mitigate these pressures.

Going Concern

The financial statements have been prepared on the going concern basis. The statement headed "Going Concern" on page 18 sets out certain factors to the Directors' consideration in reaching this assessment.

Ownership

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

Approval

The Directors Strategic report was approved by the Board on 19/01/18 and signed on its behalf by:

David Ross
Director

Directors' report

The Directors present their report together with the non-statutory financial statements for the 52 weeks ended 24 September 2017. As further described in note 1, these consolidated financial statements have been prepared solely for non-statutory purposes.

Principal activities

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

Ownership

The immediate controlling party is Stonegate Pub Company Midco Limited, a company that is owned by various investment funds 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
Marino Gudmundsson (resigned 14 March 2017)
Ian Payne
Simon Longbottom
David Ross

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

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

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

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

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

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

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

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

Directors' report *(continued)*

Board of Directors *(continued)*

David Ross (Chief Finance Officer of Stonegate Pub Company)

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

Senior Management Team

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

Suzanne Baker

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

Nick Andrews

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

Helen Charlesworth

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

Nicola Pryce

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

Tim Painter

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

Directors' report *(continued)*

Senior Management Team *(continued)*

Daniel Wilkinson

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

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

Results and dividends

The loss after tax was £24,130,000 (2016: loss of £11,267,000).

A dividend of £93,871,000 was paid on 5 May 2017. No dividend was paid in the prior period.

Employee involvement

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

Stonegate operates a transparent career pathway through "Albert's Theory of Progression", based around the character of Albert Einstein. This enables all of our pub employees to progress through their training, which covers legal requirements. Employees are then encouraged to progress through Albert's Award, for team leaders; Albert's Accolade for Deputy Managers; Albert's Accelerator for aspiring Deputy Managers to become General Managers; and Albert's Aspirations for General Managers to further develop their skills to move into corporate roles. Success is celebrated at all levels.

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

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

Equality and Diversity

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

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

Directors' report *(continued)*

Equality and Diversity *(continued)*

The following table sets out our diversity balance as between men and women at the end of FY 2017:

	Male	**Female**
All employees (site and Head Office)	50%	50%
All Head Office employees	52%	48%
Senior management team (excluding Board)	70%	30%
Board	73%	27%

Modern Slavery Act 2015

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

Guidelines for Disclosure and Transparency in Private Equity

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

Approval

The Directors report was approved by the Board on 19/01/18 and signed on its behalf by:

David Ross
Director

Cricket Square
Grand Cayman
Cayman Islands
KY1 1111

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

The directors of Stonegate Pub Company Limited ('the directors') have accepted responsibility for the preparation of the Strategic report, Director's report and non-statutory Group accounts for the period ended 24 September 2017 which are intended by them to give a true and fair view of the state of affairs of the Group and of the profit or loss for that period. They have decided to prepare the non-statutory Group accounts in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and applicable Cayman Island company law. In preparing these non-statutory Group accounts, the directors have:

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

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

Consolidated Income Statement
For the 52 weeks ended 24 September 2017

		52 weeks ended 24 September 2017			52 weeks ended 25 September 2016		
	Notes	**Pre-exceptional items £000**	**Exceptional items[1] £000**	**Total £000**	Pre-exceptional items £000	Exceptional items[1] £000	Total £000
Revenue	2	**697,468**	**-**	**697,468**	642,561	-	642,561
Operating costs		**(600,400)**	**(15,393)**	**(615,793)**	(554,360)	(14,834)	(569,194)
Operating profit before depreciation, amortisation, impairment and loss on sale of non-current assets		**97,068**	**(15,393)**	**81,675**	88,201	(14,834)	73,367
Depreciation and impairment		**(43,058)**	**(2,244)**	**(45,302)**	(37,407)	(2,703)	(40,110)
Amortisation of operating leases and brand		**(5,861)**	**-**	**(5,861)**	(4,104)	-	(4,104)
Total depreciation, amortisation and impairment		**(48,919)**	**(2,244)**	**(51,163)**	(41,511)	(2,703)	(44,214)
Loss on disposal of non-current assets	12	**(5,332)**	**-**	**(5,332)**	(318)	(10,308)	(10,626)
Operating profit	3	**42,817**	**(17,637)**	**25,180**	46,372	(27,845)	18,527
Finance income	5	**101**	**-**	**101**	132	-	132
Finance costs	6	**(31,321)**	**(16,183)**	**(47,504)**	(31,896)	(695)	(32,591)
Movement in fair value of interest rate swaps		**-**	**-**	**-**	1,393	-	1,393
Profit/(loss) before taxation		**11,597**	**(33,820)**	**(22,223)**	16,001	(28,540)	(12,539)
UK income tax (charge) / credit	8	**(1,580)**	**(327)**	**(1,907)**	481	791	1,272
Profit/(loss) for the period attributable to owners of the parent company		**10,017**	**(34,147)**	**(24,130)**	16,482	(27,749)	(11,267)

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

The notes on pages 19 to 53 form part of these financial statements.

Consolidated Statement of Comprehensive Income
For the 52 weeks ended 24 September 2017

	Notes	**52 weeks ended 24 September 2017 £000**	52 weeks ended 25 September 2016 £000
Loss for the period		**(24,130)**	(11,267)
Items that will not be reclassified to profit or loss			
Re-measurement of defined benefit pension schemes	24	**4,099**	(8,413)
Tax (charge) / credit relating to components of other comprehensive income	8	**(697)**	1,061
Other comprehensive income / (expense) after tax		**3,402**	(7,352)
Total comprehensive loss for the period		**(20,728)**	(18,619)

The notes on pages 19 to 53 form part of these financial statements.

Consolidated Balance Sheet
At 24 September 2017

	Notes	**24 September 2017 £000**	25 September 2016 £000
Assets			
Non-current assets			
Property, plant and equipment	9	**520,916**	476,723
Other intangibles	10	**80,479**	42,601
Goodwill	10	**114,141**	107,422
Retirement benefit surplus	24	**764**	64
		716,300	626,810
Current assets			
Inventories	15	**11,448**	9,434
Trade and other receivables	16	**32,228**	26,720
Cash and cash equivalents		**16,514**	28,886
		60,190	65,040
Total assets		**776,490**	691,850
Liabilities			
Current liabilities			
Trade and other payables	17	**(126,577)**	(114,951)
Borrowings	18	**(20,963)**	-
		(147,540)	(114,951)
Non-current liabilities			
Borrowings	18	**(589,835)**	(472,306)
Deferred tax liabilities	14	**(6,040)**	(3,283)
Retirement benefit obligations	24	**(10,213)**	(14,227)
Provisions	20	**(16,089)**	(5,961)
		(622,177)	(495,777)
Total liabilities		**(769,717)**	(610,728)
Net assets		**6,773**	81,122
Equity			
Called up share capital	21	**1,685**	1,500
Share premium		**81,647**	135,453
Retained earnings		**(76,559)**	(55,831)
Total equity attributable to owners of the parent company		**6,773**	81,122

These financial statements were approved by the board of directors on 19/01/18 and were signed on its behalf by:

David Ross
Director

Company registered number: FC029833

Consolidated Statement of Changes in Equity
For the 52 weeks ended 24 September 2017

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Total equity at 27 September 2015	**1,500**	**135,453**	**(37,212)**	**99,741**
Total comprehensive losses:				
Income for the period	-	-	(11,267)	(11,267)
Other comprehensive losses for the period	-	-	(7,352)	(7,352)
Total comprehensive losses for the period	-	-	(18,619)	(18,619)
Total equity at 25 September 2016	**1,500**	**135,453**	**(55,831)**	**81,122**
Total comprehensive income / (losses):				
Losses for the period	-	-	(24,130)	(24,130)
Other comprehensive income for the period	-	-	3,402	3,402
Total comprehensive losses for the period	-	-	(20,728)	(20,728)
Transactions with owners recorded directly in equity:				
Shares issued	185	40,065	-	40,250
Dividends paid	-	(93,871)	-	(93,871)
Total contributions by and distributions to owners of the Company	185	(53,806)	-	(53,621)
Total equity at 24 September 2017	**1,685**	**81,647**	**(76,559)**	**6,773**

Consolidated Cash Flow Statement
For the 52 weeks ended 24 September 2017

	52 weeks ended 24 September 2017 £000	52 weeks ended 25 September 2016 £000
Cash flows from operating activities		
Loss for the period	**(24,130)**	(11,267)
Adjustments for:		
-Depreciation, amortisation and impairment	**51,163**	44,214
-Loss on sale of non-current assets	**5,332**	10,626
-Net finance costs	**47,403**	32,459
-Movement in fair value of interest rate swaps	**-**	(1,393)
-UK income tax charge	**1,907**	(1,272)
	81,675	73,367
Changes in:		
-Inventories	**(1,175)**	(422)
-Receivables	**(633)**	(3,301)
-Payables	**10,117**	14,058
-Provisions	**4,881**	3,319
-Difference between pension contributions paid and amounts recognised in operating profit	**(930)**	(979)
Cash generated from operating activities	**93,935**	86,042
Interest paid	**(46,857)**	(26,519)
Income tax paid	**-**	-
Net cash flow from operating activities	**47,078**	59,523
Cash flows from investing activities		
Purchase of property, plant and equipment	**(82,207)**	(55,384)
Purchase of freehold reversions	**-**	(338)
Purchase of leasehold reversions	**-**	(1,750)
Proceeds from sale of property, plant and equipment	**7,399**	39,864
Interest received	**25**	66
Payments for business acquisitions	**(66,311)**	(98,590)
Net cash acquired with trading sites	**3,314**	217
Net cash flow from investing activities	**(137,780)**	(115,915)
Cash flows from financing activities		
Advance of borrowings	**603,000**	79,600
Repayment of borrowings	**(480,000)**	-
Proceeds from share issue	**40,250**	-
Dividend payment	**(93,871)**	-
Financing costs	**(4,012)**	(4,305)
Net cash flow from financing activities	**65,367**	75,295
Net increase/(decrease) in cash and cash equivalents	**(25,335)**	18,903
Opening cash and cash equivalents	**28,886**	9,983
Closing cash and cash equivalents	**3,551**	28,886

Notes to the consolidated financial statements

1 Accounting policies

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

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

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

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

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

1.1 Measurement convention

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

1.2 Going concern

The Group's principal activities, together with the principal risks and uncertainties factors likely to affect its future development, performance and position are set out in the Strategic and Directors' Reports on pages 2 to 12. The financial position of the Group is set out in the Consolidated Balance Sheet on page 16 which shows net assets of £6,773,000 (2016: £81,122,000). In addition, note 19 to the consolidated financial statements includes the Group's key exposures to credit risk and liquidity risk.

During the current period the Group has experienced a net cash outflow of £25,335,000 (2016: cash inflow of £18,903,000). The net cash outflow was a result of the Group's investing and refinancing activities. During the period Stonegate Pub Company Limited issued share capital resulting in a £40,250,000 inflow, in order to purchase Intertain Limited; carried out a £595,000,000 refinancing on 16 March 2017 and paid out a £93,871,000 dividend on 5 May 2017. The net cash inflow in the prior period was due to the sale of five London freehold properties as part of sale and lease-back transactions.

The Group met its day-to-day working capital requirements through its standard trading cycle of cash generation and its £50,000,000 combined overdraft and revolving credit facility. The Directors consider that this is a normal feature of trading in this industry. Customers pay by cash resulting in minimal credit risk and the Group takes advantage of supplier credit terms. Therefore the Group typically operates with net current liabilities (current period net current liabilities of £87,350,000; 2016: net current liabilities of £49,911,000). In the forthcoming period the Group expects to achieve year on year pre-exceptional operating profit growth (both organically and through acquisitions) and be cash generative at an operating cash flow level and at a total cash flow level. At the period end the Group had drawn down £8,000,000 of its revolving credit facility.

At the balance sheet date, the Group was financed by fixed and floating rate loan notes totalling £595,000,000 (2016: £480,000,000), details of which are set out in note 18.

Management have prepared a board paper on going concern showing the Group's forecasts and projections prepared for a period covering fifteen months from the date of approval of the financial statements. Taking account of reasonable possible changes in trading performance, the board paper shows that the Group should be able to operate within the level of its current borrowing facility. Applying reasonably possible sales based

Notes *(continued)*

1 Accounting policies *(continued)*

1.2 Going concern *(continued)*

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

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

1.3 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 24 September 2017. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

1.4 Classification of financial instruments issued by the Group

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

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

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

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

1.5 Non-derivative financial instruments

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

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

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

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.6 Derivative financial instruments and hedging

Derivative financial instruments

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

1.7 Property, plant and equipment

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

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

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

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

1.8 Sale and leaseback transactions

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

1.9 Business combinations

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

Acquisitions post transition date

For acquisitions on or after 26 September 2011, the Group measures goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquire, if any; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.9 Business combinations *(continued)*

Acquisitions prior to IFRS transition date

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

1.10 Intangible assets and goodwill

Goodwill

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

Operating lease intangible assets

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

Brand

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

1.11 Inventories

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

1.12 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

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

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

Non-financial assets

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

Notes *(continued)*

1 Accounting policies *(continued)*

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

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

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

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

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.13 Employee benefits

Defined contribution plans

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

Defined benefit plans

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

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

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

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

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

Short-term benefits

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

1.14 Provisions

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.15 Revenue

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

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

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

1.16 Expenses

Operating lease payments

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

Financing income and expenses

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

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

1.17 Taxation

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

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

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

1.18 Exceptional items

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.19 Significant accounting estimates and judgements

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.

The estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements are discussed below:

Impairment of property, plant, equipment and operating leases

Property, plant and equipment and operating leases are reviewed for impairment if there are any indicators to suggest that the carrying amount may not be recoverable. Recoverable amounts are determined based on value-in-use calculations and estimated sale proceeds. These calculations require assumptions to be made regarding projected cash flows and the choice of a suitable discount rate in order to calculate the present value of those cash flows. Actual outcomes may vary from these estimates. These are disclosed in note 11.

Impairment of goodwill

The Group annually tests whether goodwill has been impaired. The recoverable amount of all cash-generating units (CGUs) grouped together is determined based on value-in-use calculations. These calculations require assumptions to be made regarding projected cash flows and the choice of an appropriate discount rate in order to calculate the value-in-use of those cash flows. These are disclosed in note 11. Actual outcomes could vary from these estimates.

Onerous lease provisions

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

Defined pension benefit schemes

The present value of defined benefit pension scheme liabilities are determined on an actuarial basis and depend on a number of actuarial assumptions, which are disclosed in note 23. Any changes in these assumptions could impact the carrying amounts of retirement benefit assets / liabilities.

Business combinations

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

Note 12 describes the business combinations in the current and prior periods and provides details of the fair value adjustments made in arriving at the fair value of assets and liabilities acquired.

1.20 Segmental reporting

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.21 New standards, interpretations and amendments to existing standards

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

- IFRS 16 Leases – IFRS 16 'Leases' replaces IAS 17 and addresses the definition, recognition and measurement of leases. The key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet as a right-of-use asset and a lease liability based on discounted future lease payments. The asset will be depreciated over its useful economic life while the lease payment will be apportioned between a capital repayment of the lease liability and a finance charge. The impact of this standard is expected to be material. The choice of transition method is expected to be significant. The standard gives the option to either fully restate or recognise an asset equal to the value of the liability on the date of transition. The impact of the standard and choices are currently being assessed and it is not yet practicable to quantify the effect of IFRS 16 on these consolidated financial statements. This will be applicable to Stonegate for the financial year ending September 2020.
- IFRS 15 Revenue from Contracts with Customers – The IASB issued IFRS 15 Revenue from Contracts in May 2014. This standard replaces all existing revenue recognition guidance under current IFRS and becomes effective for annual periods beginning on or after 1 January 2018. The Group is currently considering the impact of IFRS 15 on its consolidated results and financial position.
- IFRS 9 Financial Instruments – IFRS 9 Financial Instruments was first issued in November 2009 with a complete version issued in July 2014 and is a replacement of IAS 39 Financial Instruments: Recognition and Measurement. The new standard becomes effective for annual periods beginning on or after 1 January 2018. The Group is currently considering the impact of IFRS 9 on its consolidated results and financial position.

2 Revenue

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

	2017 52 weeks £000	2016 52 weeks £000
Sales of food, beverages, admissions, hotel rooms and machine income	**697,468**	642,561

3 Expenses

Included in operating profit are the following expenses:

	2017 52 weeks £000	2016 52 weeks £000
Drink and food costs	**187,019**	174,115
Employment costs	**182,229**	167,900
Operating lease rentals	**54,040**	46,897
Other costs	**192,505**	180,282
Depreciation, amortisation and impairment	**51,163**	44,214
Loss on disposal of non-current assets	**5,332**	10,626
Costs deducted from revenue to determine operating profit	**672,288**	624,034

Included within operating profit are £17,637,000 of costs (2016: £27,845,000) relating to exceptional items (see note 7).

Notes *(continued)*

4 Employees

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

	2017	2016
	52 weeks	52 weeks
Head office administration[1]	**335**	298
Retail[1]	**12,577**	12,104
	12,912	12,402

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

At the period end the Group had 13,408 employees (2016: 12,864 employees).

The aggregate payroll costs of these persons were as follows:

	2017	2016
	52 weeks	52 weeks
	£000	£000
Wages and salaries	**169,895**	156,473
Social security costs	**11,119**	10,151
Pension costs	**1,215**	1,276
	182,229	167,900

5 Finance income

	2017	2016
	52 weeks	52 weeks
	£000	£000
Other interest receivable	**101**	132
Total finance income	**101**	132

6 Finance costs

	2017	2016
	52 weeks	52 weeks
	£000	£000
Interest payable on loan notes	**29,530**	28,252
Other interest payable	**372**	66
Net pensions finance charge	**315**	239
Debt issue costs amortisation	**8,012**	2,867
Refinancing costs	**8,959**	1,167
Unwinding of discount element of provisions	**316**	-
Total finance costs	**47,504**	32,591

Included within finance costs are £16,183,000 of costs (2016: £695,000) relating to exceptional items (see note 7).

Notes *(continued)*

7 Exceptional items

	2017	2016
	52 weeks	52 weeks
	£000	£000
Operating exceptional items		
Acquisition costs	**5,545**	7,033
Restructuring and integration costs	**2,975**	3,810
Compensation for loss of office	**494**	228
Impairment of property, plant and equipment (note 11)	**1,954**	2,617
Impairment of operating leases (note 11)	**290**	86
Onerous leases	**6,379**	3,763
	17,637	17,537
Loss on disposal of non-current assets (note 12)	**-**	10,308
Finance costs	**16,183**	695
UK income tax charge / (credit) relating to exceptional items	**327**	(791)
Total exceptional items	**34,147**	27,749

Acquisition costs: Acquisition costs are items of one-off expenditure incurred, primarily, in connection with the business combination activities during the period (see note 12). These costs include legal and professional fees and stamp duties which are expensed as incurred. The prior period expense relates to the purchase of 53 sites from the Administrator of Tattershall Castle Group.

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

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

Onerous leases: The onerous lease provision covers potential liabilities for onerous lease contracts for sites that have either closed, or where projected future trading revenue is insufficient to cover the lower of exit cost or value-in-use. The provision is based on the present value of expected future cash flows, discounted, relating to rents, rates and other property costs to the end of the lease terms net of expected sublet income.

Loss on disposal of non-current assets: During the prior period the Group wrote off £10,308,000 of tangible fixed assets. The disposals related primarily to assets in the original M&B estate which are no longer in use following the acceleration of the development programme of these sites. The tax credit relating to this was £791,000.

Finance costs: These costs primarily relate to the refinancing on 16 March 2017. As part of this the Group incurred an early redemption penalty of £4,889,000, excess interest of £1,677,000, fees of £1,895,000 and wrote off existing debt issue costs of £6,046,000. The Group has incurred corporate restructuring costs of £1,676,000.

Notes *(continued)*

8 Taxation

	2017 52 weeks £000	2016 52 weeks £000
Tax charged in the income statement		
Current tax:		
- UK corporation tax	-	-
- Group relief paid for previous year	-	610
Total current tax charge	-	610
Deferred tax (note 14):		
- Origination and reversal of temporary differences	**2,563**	1,861
- Adjustments in respect of previous periods	**258**	(2,744)
- Rate change	**(914)**	(999)
Total deferred tax charge/(credit)	**1,907**	(1,882)
Total current and deferred tax charged/(credited) in the income statement	**1,907**	(1,272)

	2017 52 weeks £000	2016 52 weeks £000
Tax credited in other comprehensive income		
Deferred tax:		
- Re-measurement of defined benefit pension schemes	**697**	(1,061)
Total tax charge/(credit) recognised in other comprehensive income	**697**	(1,061)

Reconciliation of total tax charge

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

	2017 52 weeks £000	2016 52 weeks £000
Loss before tax	**(22,223)**	(12,539)
Tax at current UK corporation tax rate of 19.5% (2016: 20%)	**(4,333)**	(2,508)
Expenses not deductible for tax purposes	**7,413**	5,446
Impact of rate change	**(914)**	(999)
Group relief not paid for	**(517)**	(1,077)
Adjustment in respect of previous periods	**258**	(2,134)
Total tax charged/(credited) in the income statement	**1,907**	(1,272)

Notes *(continued)*

9 Property, plant and equipment

	Leasehold improvements £000	Land and buildings £000	Furniture, fixtures and equipment £000	Total £000
Cost				
At 27 September 2015	92,719	257,053	176,323	526,095
Acquisitions through business combinations	-	86,014	1,560	87,574
Additions	12,153	3,920	39,044	55,117
Disposals	(482)	(38,775)	(21,836)	(61,093)
Reclassification	(742)	(338)	(31)	(1,111)
At 25 September 2016	103,648	307,874	195,060	606,582
Acquisitions through business combinations	-	15,897	2,698	18,595
Additions	17,790	9,109	55,761	82,660
Disposals	(487)	(5,575)	(14,977)	(21,039)
Fully depreciated assets	(4,976)	(3)	(12,019)	(16,998)
Reclassification	(2,423)	2,423	-	-
At 24 September 2017	**113,552**	**329,725**	**226,523**	**669,800**
Depreciation				
At 27 September 2015	(23,487)	(7,106)	(70,617)	(101,210)
Charge for the year	(6,643)	(553)	(30,211)	(37,407)
Impairment (note 11)	(2,096)	15	(536)	(2,617)
Disposals	178	158	10,699	11,035
Reclassification	39	270	31	340
At 25 September 2016	(32,009)	(7,216)	(90,634)	(129,859)
Charge for the year	(7,232)	(1,087)	(34,739)	(43,058)
Impairment (note 11)	(400)	(1,226)	(328)	(1,954)
Disposals	206	407	8,376	8,989
Fully depreciated assets	4,976	3	12,019	16,998
At 24 September 2017	**(34,459)**	**(9,119)**	**(105,306)**	**(148,884)**
Net book value				
At 24 September 2017	**79,093**	**320,606**	**121,217**	**520,916**
At 25 September 2016	71,639	300,658	104,426	476,723
At 27 September 2015	69,232	249,947	105,706	424,885

During the current period the Group acquired £18,595,000 of property, plant and equipment through business combinations (2016: £87,574,000). See note 12 for details of these acquisitions.

Included in property, plant and equipment are properties with a net book value of £312,959,000 (2016: £295,012,000) over which the Group's borrowings are secured by way of fixed and floating charges.

Land and buildings includes £12,473,000 (2016: £12,946,000) relating to long leasehold sites; £194,556,000 of freehold land (2016: £188,609,000) and £113,577,000 of freehold properties (2016: £99,103,000).

Notes (continued)

10 Goodwill, operating leases and brand intangible assets

	Brand £000	Operating leases £000	Goodwill £000
Cost			
At 27 September 2015	-	41,632	110,060
Acquisitions through business combinations	-	12,912	1,566
Disposals	-	(50)	(394)
Reclassification	-	771	-
At 25 September 2016	-	55,265	111,232
Acquisitions through business combinations	2,000	42,029	7,400
Disposals	-	-	(681)
Fully depreciated assets	-	(841)	-
At 24 September 2017	**2,000**	**96,453**	**117,951**
Amortisation			
At 27 September 2015	-	(8,487)	(3,810)
Charge for the year	-	(4,104)	-
Impairment (note 11)	-	(86)	-
Disposals	-	13	-
At 25 September 2016	-	(12,664)	(3,810)
Charge for the year	(190)	(5,671)	-
Impairment (note 11)	-	(290)	-
Fully depreciated assets	-	841	-
At 24 September 2017	**(190)**	**(17,784)**	**(3,810)**
Net book value			
At 24 September 2017	**1,810**	**78,669**	**114,141**
At 25 September 2016	-	42,601	107,422
At 27 September 2015	-	33,145	106,250

During the current period the Group acquired £2,000,000 of brand (2016: £Nil); £42,029,000 of operating leases (2016: £12,912,000) and £7,400,000 of goodwill (2016: £1,566,000) as a result of business combinations. See note 12 for details of these acquisitions.

Goodwill has been reduced in the period by £681,000 (2016: £394,000), representing the apportioned value of goodwill allocated to those sites disposed of during the period.

Notes (continued)

11 Impairment losses

Property, plant and equipment and operating lease intangible assets
The Group considers each of its individual pubs as a cash-generating unit (CGU). Each CGU is reviewed annually for indicators of impairment. When indicators of impairment are identified the carrying value of the individual pub is compared to its recoverable amount. The recoverable amount is determined as being the higher of the expected net realisable value or the value in use.

The value in use is determined using the present value of the expected cash flows attributable to that site using a pre-tax discount rate of 8.4% (2016: 8.9%) applied to the future expected cash flows using budgeted earnings before interest, tax, depreciation and amortisation over a five year period, as prepared for the board. The cash flows continue to be risk adjusted to reflect a conservative outlook. The key assumptions are budgeted earnings and trading margin, which include past investments and staff costs, and have been reviewed by the board and deemed to be reasonable. Cash flows beyond five years are extrapolated using a 2.5% growth rate for five years.

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

Indicators of impairment were found in each of the periods ended 24 September 2017 and 25 September 2016 on a small number of individual CGUs and consequently impairment reviews were carried out on the affected CGUs. Impairments totalling £2,244,000 (2016: £2,703,000) were identified.

The Group's estimate of impairments is most sensitive to changes in the discount rate, growth rates and budgeted cash flows. Sensitivity analysis has been carried out by reference to these assumptions. This demonstrated that neither a 1% reduction in the growth rate, nor a 1% increase in the discount rate would lead to an increase in the impairment charge. The minimal impact is mainly driven by factoring in the fair value less costs to sell for the CGUs.

Goodwill
Goodwill acquired via business combinations is tested annually for impairment. For this purpose, the goodwill is allocated to the 703 strong pub estate being a group of CGUs, as this represents the lowest level within the Group that goodwill is monitored for internal management purposes.

The carrying amount of goodwill has been compared to its recoverable amount and involved calculating an overall value in use, using discounted cash flow projections. The value in use calculation is based on budgeted earnings before interest and taxation over a five year period, the pre-tax discount rate and the growth rate used to extrapolate cash flows beyond the budgeted period. The pre-tax risk adjusted discount rate applied to cash flow projections was 8.4% (2016: 8.9%). Management have estimated the discount rate by reference to past experience and an industry average weighted cost of capital as adjusted for appropriate risk factors reflecting current economic conditions and the risk profile of the CGUs. Cash flows beyond five years are extrapolated using a 2.5% growth rate, based on management expectations.

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

Notes (continued)

12 Acquisitions and disposals

Acquisitions in the current period

Intertain Limited

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

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

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

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

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

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

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

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

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

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

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

Notes (continued)

12 Acquisitions and disposals *(continued)*

Post-acquisition to 24 September 2017 Intertain Limited has contributed £35,334,000 in revenue and £2,749,000 in pre-exceptional operating profit before depreciation, amortisation, impairment and loss on sale of non-current assets.

If the acquisition of Intertain Limited had taken place at the start of the financial period the Group's consolidated revenue would have been £706,781,000 and its consolidated pre-exceptional operating profit before depreciation, amortisation, impairment and loss on sale of non-current assets would have been £98,295,000.

Large Bars Limited

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

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

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

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

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

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

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

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

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

Post-acquisition to 24 September 2017 Large Bars Limited has contributed £1,304,000 in revenue and £157,000 in pre-exceptional operating profit before depreciation, amortisation, impairment and loss on sale of non-current assets.

If the acquisition of Large Bars Limited had taken place at the start of the financial period the Group's consolidated revenue would have been £699,482,000 and its consolidated pre-exceptional operating profit before depreciation, amortisation, impairment and loss on sale of non-current assets would have been £97,471,000.

Notes (continued)

12 Acquisitions and disposals *(continued)*

Bar Holdings Limited

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

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

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

	Fair value £000
Operating leases	5,500
Property, plant and equipment	250
Inventory	105
Cash	262
Trade and other receivables	1,274
Trade and other payables	(2,575)
Deferred tax	(978)
Net assets acquired	3,838
Purchase price satisfied by:	
Cash consideration	10,000
Goodwill	**6,162**

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

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

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

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

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

Post-acquisition to 24 September 2017 Bar Holdings Limited has contributed £268,000 in revenue and £31,000 in pre-exceptional operating profit operating profit before depreciation, amortisation, impairment and loss on sale of non-current assets.

If the acquisition of Bar Holdings Limited had taken place at the start of the financial period the Group's consolidated revenue would have been £706,299,000 and its consolidated pre-exceptional operating profit before depreciation, amortisation, impairment and loss on sale of non-current assets would have been £97,826,000.

Other acquisitions

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

Notes (continued)

12 Acquisitions and disposals *(continued)*

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

Acquisitions in the prior period

On 29 September 2015, Stonegate Pub Company Limited acquired 53 freehold and leasehold sites from the Administrator of the Tattershall Castle Group. Total consideration was £98,291,000. As part of this transaction Stonegate Pub Company Limited issued a further £80,000,000 of fixed loan notes charging an annual interest rate of 5.75% and maturing on 15 April 2019. At the same time as this transaction the Group increased its existing bank facility by £15,000,000. The Group also entered into sale and operating leaseback transactions for five of the sites resulting in consideration of £34,000,000.

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

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

	Fair value £000
Operating leases	10,862
Property, plant and equipment	87,236
Inventory	639
Cash	217
Deferred tax	(2,229)
Net assets acquired	96,725
Purchase price satisfied by:	
Cash consideration	98,291
Goodwill	**1,566**

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

The Group incurred acquisition-related costs of £6,957,000 related to stamp duty and external legal and professional fees. These costs have been included in 'operating costs' in the consolidated income statement (see note 7).

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

Property, plant and equipment: Included in property, plant and equipment is freehold property with a valuation of £85,676,000 and fixtures and fittings of £1,560,000.

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

Other acquisitions

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

Notes (continued)

12 Acquisitions and disposals *(continued)*

Disposals in the current period

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

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

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

Disposals in the prior period

During the current period the Group disposed of sixteen sites to third parties for net consideration of £6,756,000, with associated costs of sale and closure costs of £504,000, tangible fixed assets with net book values of £5,750,000, operating leases of £37,000 and goodwill with net book values of £394,000. Profit on disposal was £71,000.

During the period the Group also disposed of five sites on a sale and leaseback agreement. These sites were sold for net consideration of £34,000,000 with associated costs of sale of £389,000 and tangible fixed assets with net book values of £34,000,000. Loss on disposal was £389,000. The consideration was used to help finance the acquisition of 53 freehold and leasehold sites from the Administrator of the Tattershall Castle Group.

During the period the Group wrote off £10,308,000 of tangible fixed assets. The disposals related primarily to assets in the original M&B estate which are no longer in use following the acceleration of the development programme of these sites.

Total loss on disposal for the period was £10,626,000.

Notes (continued)

13 Investments in subsidiaries

The Company has the following investments in subsidiaries.

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

* Held indirectly

Notes *(continued)*

14 *Deferred tax assets and liabilities*

Movement in deferred tax during the period is as follows:

	24 September 2017 £000	25 September 2016 £000
At beginning of period	**(3,283)**	(3,997)
(Charged)/credited to income statement	**(1,907)**	1,882
(Charged)/credited to equity	**(697)**	1,061
Acquisitions	**(153)**	(2,229)
At end of period	**(6,040)**	(3,283)

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

Deferred tax assets	Tax losses £000	Retirement benefit liabilities £000	Financial instruments £000	Property, plant and equipment £000	Temporary differences £000	Total £000
At 27 September 2015	1,699	1,298	279	-	4	3,280
Credited/(charged) to income statement	2,223	49	(279)	-	39	2,032
Recognised in other comprehensive income	-	1,061	-	-	-	1,061
At 25 September 2016	3,922	2,408	-	-	43	6,373
(Charged)/credited to income statement	(2,509)	(105)	-	-	511	(2,103)
Recognised in other comprehensive income	-	(697)	-	-	-	(697)
Recognised in goodwill	2,688	-	-	-	-	2,688
At 24 September 2017	**4,101**	**1,606**	**-**	**-**	**554**	**6,261**

The Directors consider it reasonable to recognise deferred tax assets as they expect the Group to continue to be profitable in the future.

Deferred tax liabilities	Intangibles £000	Property, plant and equipment £000	Temporary differences £000	Total £000
At 27 September 2015	2,237	5,040	-	7,277
Charged to income statement	133	17	-	150
Recognised in goodwill	-	2,229	-	2,229
At 25 September 2016	2,370	7,286	-	9,656
Charged/(credited) to income statement	466	(662)	-	(196)
Recognised in goodwill	-	2,841	-	2,841
At 24 September 2017	**2,836**	**9,465**	-	**12,301**

At the period end the Group had a net deferred tax liability of £6,040,000 (2016: liability of £3,283,000) and an unrecognised deferred tax asset of £1,042,000 relating to unutilised losses in Intertain Limited.

Notes *(continued)*

14 Deferred tax assets and liabilities *(continued)*

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 24 September 2017 has been calculated based on these rates.

15 Inventories

	24 September 2017 £000	25 September 2016 £000
Goods held for resale	**11,448**	9,434
	11,448	9,434

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

The Group consumed £187,019,000 of inventories during the period (2016: £174,115,000) and charged £Nil to the income statement for the write-down of inventories during the period (2016: £Nil).

16 Trade and other receivables

	24 September 2017 £000	25 September 2016 £000
Trade receivables	**5,959**	4,656
Other receivables	**7,699**	5,818
Prepayments and accrued income	**18,570**	16,246
	32,228	26,720

17 Trade and other payables

	24 September 2017 £000	25 September 2016 £000
Trade payables	**58,300**	53,489
Amounts due to group undertakings	**2,733**	2,616
Other taxation and social security	**16,499**	13,988
Other payables	**23,890**	12,660
Accruals	**25,155**	32,198
	126,577	114,951

There is an amount of £2,694,000 (2016: £2,616,000) owing to Stonegate Pub Company Midco Limited, the immediate parent company, at 24 September 2017. See note 24.

Notes *(continued)*

18 Borrowings

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

	24 September 2017 £000	25 September 2016 £000
Current liabilities		
Bank overdrafts	**12,963**	-
Revolving credit facility	**8,000**	-
	20,963	-
Non-current liabilities		
Secured loan notes issued by Stonegate Pub Company Financing plc	**589,835**	472,306
	589,835	472,306

Current liabilities include £8,000,000 drawn down from the Group's revolving credit facility which was repaid shortly after the period end and charged annual interest of 3.24%.

Secured loan notes are shown net of debt issue costs of £5,165,000 (2016: £7,404,000), and a £110,000 discount accrual in the prior period.

Terms and debt repayment schedule:

			Principal outstanding	
	Principal borrowed £000	Year of maturity	**24 September 2017 £000**	25 September 2016 £000
Secured fixed notes	340,000	2019	-	340,000
Secured floating notes	140,000	2019	-	140,000
Secured fixed notes	405,000	2022	**405,000**	-
Secured floating notes	190,000	2022	**190,000**	
			595,000	480,000

On 16 March 2017 Stonegate Pub Company Financing plc, a public limited company incorporated under the laws of England and Wales and a wholly owned subsidiary of Stonegate Pub Company Limited, received £595,000,000 from the issue of £405,000,000 fixed loan notes charging an annual interest rate of 4.875% and £190,000,000 floating loan notes charging an annual interest rate of 3 months LIBOR + 4.375%. The notes will mature on 15 March 2022 and are listed on the Channel Islands stock exchange. Amortised debt issue costs of £5,165,000 offset the loan balance at the period end.

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

The previous loan notes of £480,000,000, due for maturity on 15 April 2019, were split into £340,000,000 of fixed loan notes charging an annual interest rate of 5.75% and £140,000,000 of floating loan notes charging an annual interest rate of 3 months LIBOR + 4.75%.

Notes *(continued)*

19 Financial instruments

Fair values of financial instruments

Set out in the table below are the carrying values and fair values of all of the Group's financial instruments at 24 September 2017 and 25 September 2016.

	Fair value		Carrying value	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Financial assets - loans and receivables				
Trade receivables	**5,959**	4,656	**5,959**	4,656
Other receivables	**7,699**	5,818	**7,699**	5,818
Cash and cash equivalents	**16,514**	28,886	**16,514**	28,886
	30,172	39,360	**30,172**	39,360
Financial liabilities				
Trade payables	**58,300**	53,489	**58,300**	53,489
Other payables	**23,890**	12,660	**23,890**	12,660
Secured fixed notes	**408,471**	347,701	**405,000**	340,000
Secured floating notes	**190,289**	139,650	**190,000**	140,000
Bank loans and overdrafts	**20,963**	-	**20,963**	-
	701,913	553,500	**698,153**	546,149

The following assumptions were used to estimate the fair values:

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

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

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

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

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

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

Fair value hierarchy

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

The classification uses the following three-level hierarchy:

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

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

Notes *(continued)*

19 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 Group's principal external debt is held within one securitisation. The securitised debt is monitored by a variety of measures, which are reported to the debt providers on a quarterly basis. The Group assesses the performance of the business, the level of available funds and the short to medium term strategic plans concerning capital spend as well as the need to meet financial covenants and such assessment influences the level of dividends payable.

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

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

Liquidity risk

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

At 24 September 2017	**Within 1 year £000**	**1-2 years £000**	**2-5 years £000**	**> 5 years £000**	**Total £000**
Interest-bearing loans and borrowings					
- capital	**-**	**-**	**595,000**	**-**	**595,000**
- interest	**28,750**	**28,580**	**71,160**	**-**	**128,490**
Bank overdrafts	**12,963**	**-**	**-**	**-**	**12,963**
Revolving credit facility	**8,000**	**-**	**-**	**-**	**8,000**
Trade payables	**58,300**	**-**	**-**	**-**	**58,300**
Other payables	**23,890**	**-**	**-**	**-**	**23,890**
	131,903	**28,580**	**666,160**	**-**	**826,643**

At 25 September 2016	£000	£000	£000	£000	£000
Interest-bearing loans and borrowings					
- capital	-	-	480,000	-	480,000
- interest	26,983	26,943	25,100	-	79,026
- interest rate swaps	-	-	-	-	-
Bank overdrafts	-	-	-	-	-
Trade payables	53,489	-	-	-	53,489
Other payables	12,660	-	-	-	12,660
	93,132	26,943	505,100	-	625,175

Notes *(continued)*

19 Financial instruments *(continued)*

Credit risk

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

	24 September 2017 £000	25 September 2016 £000
Not past due	**11,922**	6,846
0-30 days past due	**1,112**	1,936
31-60 days past due	**613**	707
Greater than 60 days past due	**337**	1,107
	13,984	10,596

Trade receivables are shown gross of a provision of £326,000 (2016: £122,000). £87,000 was charged to the income statement during the period (2016: charged £157,000); £124,000 was acquired as part of the acquisition of Intertain Limited and £7,000 was utilised (2016: £138,000).

20 Provisions

	Onerous leases £000	Health and safety claims £000	Total £000
At 27 September 2015	861	1,345	2,206
Additions	3,763	1,604	5,367
Utilised	(444)	(1,168)	(1,612)
At 25 September 2016	4,180	1,781	5,961
Additions	5,301	700	6,001
Additions through business combinations	2,551	2,380	4,931
Discount rate revision	1,706	-	1,706
Utilised	(959)	(1,000)	(1,959)
Released	(551)	-	(551)
At 24 September 2017	**12,228**	**3,861**	**16,089**

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

Notes *(continued)*

20 Provisions *(continued)*

The health and safety claims provision is an estimate of the claims which the Group expects to settle over the next two years. These claims generally relate to minor incidents of personal injury at sites and the level of provision has been based on managements' expected future successful claim rate. The Group has also provided for an ongoing legal case in connection to the acquisition of the Intertain Limited group of companies. Management expect that indemnification provided by the former owners of the business to cover any liability arising.

21 Share capital

	24 September 2017 £000	25 September 2016 £000
Called up, allotted and fully paid:		
168,488,745 ordinary shares of £0.01 each	1,685	-
150,000,000 ordinary shares of £0.01 each	-	1,500

On 5 December 2016 Stonegate Pub Company issued 18,488,745 ordinary shares of £0.01 at an aggregate price of £40,250,000 in order to acquire the Intertain Limited group on 6 December 2016.

22 Commitments

Operating leases relating to land and buildings

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

	24 September 2017 £000	25 September 2016 £000
Future minimum rentals payable under non-cancellable operating leases:		
Within one year	**47,853**	40,116
Between one and five years	**181,421**	153,632
After five years	**461,830**	396,708
	691,104	590,456

Capital commitments

Capital commitments for property, plant and equipment:

	24 September 2017 £000	25 September 2016 £000
Contracted but not provided	**10,394**	7,581

Notes *(continued)*

23 Contingent liability

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

24 Employee benefits

Defined contribution pension schemes

The Group operates three defined contribution stakeholder schemes for certain employees. The pension cost charge for the period represents contributions payable by the Group to the schemes and amounted to £1,215,000 (2016: £1,276,000). At the period end the Group had outstanding contributions payable to the schemes of £1,000 (2016: £7,000).

Defined benefit pension schemes

On 21 June 2011, as part of the Plato Company 3 acquisition the Group acquired two defined benefit schemes, the Laurel Pub Pension scheme and the Yates Group Pension scheme, which are closed to new members and closed to further accruals for existing members. The assets of the schemes are held in single, separate trustee administered funds. The latest full actuarial valuations of the schemes were last carried out by an independent qualified actuary at 28 February 2014 and the results have been updated for the purpose of calculating the disclosures at 24 September 2017.

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

The amounts recognised in the balance sheet are as follows:

	24 September 2017	25 September 2016
Laurel Pub Pension scheme	**£000**	£000
Fair value of plan assets	**73,485**	75,819
Present value of defined benefit obligation	**(83,698)**	(90,046)
Net retirement benefit liability recognised in the balance sheet	**(10,213)**	(14,227)
Yates Group Pension scheme	**£000**	£000
Fair value of plan assets	**14,322**	14,686
Present value of defined benefit obligation	**(13,558)**	(14,622)
Surplus in scheme	**764**	64
Restriction of surplus	**-**	-
Net retirement benefit surplus recognised in the balance sheet	**764**	64
Total net retirement benefit recognised in the balance sheet	**(9,449)**	(14,163)

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

Notes *(continued)*

24 Employee benefits *(continued)*

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

	24 September 2017	25 September 2016
Laurel Pub Pension scheme	**£000**	£000
Present value of scheme liabilities at beginning of period	**90,046**	69,332
Expenses	**70**	21
Interest cost	**2,030**	2,592
Actuarial (gains)/losses	**(5,315)**	20,000
Benefits paid	**(3,133)**	(1,899)
Past service costs	**-**	-
Present value of scheme liabilities at end of period	**83,698**	90,046
Yates Group Pension scheme	**£000**	£000
Present value of scheme liabilities at beginning of period	**14,622**	12,569
Expenses	**-**	-
Interest cost	**331**	467
Actuarial (gains)/losses	**(974)**	2,158
Benefits paid	**(421)**	(572)
Past service costs	**-**	-
Present value of scheme liabilities at end of period	**13,558**	14,622
Total present value of scheme liabilities at end of period	**97,256**	104,668

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

	24 September 2017	25 September 2016
Laurel Pub Pension scheme	**£000**	£000
Fair value of scheme assets at beginning of period	**75,819**	62,112
Interest income	**1,714**	2,327
Return on plan assets excluding interest income	**(1,915)**	12,279
Contributions paid by employer	**1,000**	1,000
Benefits paid	**(3,133)**	(1,899)
Fair value of scheme assets at end of period	**73,485**	75,819
Yates Group Pension scheme	**£000**	£000
Fair value of scheme assets at beginning of period	**14,686**	13,299
Interest income	**332**	493
Return on plan assets excluding interest income	**(275)**	1,466
Contributions paid by employer	**-**	-
Benefits paid	**(421)**	(572)
Fair value of scheme assets at end of period	**14,322**	14,686
Total fair value of scheme assets at end of period	**87,807**	90,505

Notes *(continued)*

24 Employee benefits *(continued)*

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

	2017	2016
	52 weeks	52 weeks
Laurel Pub Pension scheme	**£000**	£000
Past service costs	**-**	-
Interest cost	**316**	265
Expenses	**70**	21
Net cost	**386**	286
Yates Group Pension scheme	**£000**	£000
Past service costs	**-**	-
Interest income	**(1)**	(26)
Expenses	**-**	-
Net income	**(1)**	(26)
Total net cost	**385**	260

Analysis of amounts recognised in the SOCI in the period:

	2017	2016
	52 weeks	52 weeks
Laurel Pub Pension scheme	**£000**	£000
Return on plan assets excluding interest income	**(1,915)**	12,279
Experience gains	**791**	1,482
Effects of changes in demographic assumptions	**2,125**	964
Effects of changes in financial assumptions	**2,399**	(22,446)
Re-measurement losses recognised in the SOCI	**3,400**	(7,721)
Yates Group Pension scheme	**£000**	£000
Return on plan assets excluding interest income	**(275)**	1,466
Experience gains	**366**	225
Effects of changes in demographic assumptions	**224**	167
Effects of changes in financial assumptions	**384**	(2,550)
Re-measurement gains recognised in the SOCI	**699**	(692)
Total re-measurement losses recognised in the SOCI	***4,099***	*(8,413)*

Cumulative amounts recognised in the SOCI:

	24 September	25 September
	2017	2016
	£000	£000
At beginning of period	**(14,330)**	(5,917)
Re-measurement losses in the period	***4,099***	*(8,413)*
At end of period	**(10,231)**	(14,330)

Notes *(continued)*

24 Employee benefits *(continued)*

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

Laurel Pub Pension scheme	**2017 £000**	2016 £000	2015 £000	2014 £000	2013 £000
Present value of retirement benefit liabilities	**(83,698)**	(90,046)	(69,332)	(65,734)	(59,161)
Fair value of plan assets	**73,485**	75,819	62,112	58,499	54,004
Net liability in the scheme	**(10,213)**	(14,227)	(7,220)	(7,235)	(5,157)
Experience adjustment on scheme liabilities	**791**	1,482	1,441	(152)	(59)
Percentage of scheme liabilities	**(0.9)%**	**(1.65)%**	(2.08)%	0.2%	0.1%
Experience adjustments on scheme assets	**(1,915)**	12,279	1,712	3,712	3,072
Percentage of scheme assets	**(2.6)%**	16.2%	2.8%	6.3%	5.7%

Yates Group Pension scheme	**£000**	£000	£000	£000	£000
Present value of retirement benefit liabilities	**(13,558)**	(14,622)	(12,569)	(13,041)	(12,482)
Fair value of plan assets	**14,322**	14,686	13,299	13,168	12,549
Net asset in the scheme	**764**	64	730	127	67
Experience adjustment on scheme liabilities	**366**	225	725	(44)	(131)
Percentage of scheme liabilities	**(2.7)%**	**(1.5)%**	(5.8)%	0.3%	1.0%
Experience adjustments on scheme assets	**(275)**	1,466	107	677	419
Percentage of scheme assets	**(1.9)%**	10.0%	0.8%	5.1%	3.3%

The Group has agreed with the trustees of the Laurel Pub Pension scheme that it will aim to eliminate the deficit over a period of 7 years from 25 June 2014 by the payment of annual contributions of £1,000,000 each year until 2020 followed by a payment of £60,000 by 30 June 2021. The Group will meet the other annual fees and expenses (excluding the annual PPF levy) incurred by the scheme subject to a cap of £250,000 per scheme year.

The group is currently engaged in the latest triannual valuation relating to the year ending 28 February 2017.

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:

	24 September 2017	25 September 2016
Male retiring in 2017	**21.5 years**	21.7 years
Female retiring in 2017	**23.4 years**	23.7 years
Male retiring in 2042	**23.7 years**	24.4 years
Female retiring in 2042	**25.7 years**	26.6 years

Notes *(continued)*

24 Employee benefits *(continued)*

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

	24 September 2017 £000	25 September 2016 £000
Laurel Pub Pension Scheme		
Discount rate	**2.75%**	2.30%
Rate of increase in pension payment	**3.20%**	2.90%
Inflation (RPI)	**3.40%**	3.00%
Inflation (CPI)	**2.40%**	2.00%
Yates Group Pension Scheme		
Discount rate	**2.75%**	2.30%
Rate of increase in pension payment	**2.40%**	2.10%
Inflation (RPI)	**3.40%**	3.00%
Inflation (CPI)	**2.40%**	2.00%

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

	2017 £000	2016 £000
Laurel Pub Pension Scheme		
Equities	**39,164**	32,238
Bonds	**33,897**	42,315
Cash	**424**	1,266
Fair value of plan assets	**73,485**	75,819
Actual return on plan assets	**(201)**	14,606
Yates Group Pension Scheme		
Equities	**5,870**	5,627
Bonds	**7,805**	7,818
Cash	**52**	40
Other	**595**	1,201
Fair value of plan assets	**14,322**	14,686
Actual return on plan assets	**57**	1,959

Notes *(continued)*

24 Employee benefits *(continued)*

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

		Impact on scheme liabilities	
		24 September	25 September
	Change in assumption	**2017**	2016
Laurel Pub Pension Scheme			
Discount rate	Increase of 0.10% p.a.	**(2.10)%**	5.50%
Rate of inflation	Increase of 0.10% p.a.	**2.10%**	4.40%
Rate of mortality	Increase in life expectancy of 1 year	**3.30%**	3.00%
Yates Group Pension Scheme			
Discount rate	Decrease of 0.25% p.a.	**3.50%**	3.60%
Rate of inflation	Increase of 0.25% p.a.	**2.40%**	2.40%
Rate of mortality	Increase in life expectancy of 1 year	**3.00%**	3.00%

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 24 September 2017 is 22 years for the Laurel Pub Pension scheme (2016: 22 years) and 14 years for the Yates Group Pension scheme (2016: 14 years).

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

25 Related party transactions

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

Transactions with key management personnel

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

	2017	2016
	52 weeks	52 weeks
	£000	£000
Salaries and short-term employee benefits	**3,880**	2,525
Post-employment pension benefits	**193**	140
Compensation for loss of office	**494**	228
	4,567	2,893

Notes *(continued)*

25 Related party transactions *(continued)*

Other related party transactions

During the year the interest was charged on loans to management as part of the MEP scheme of £76,000 (2016: £66,000). Loans and interest of £321,000 were cancelled in the prior period as a result of one employee ceasing employment. £417,000 was repaid during the period (2016: £234,000). The amount outstanding at 24 September 2017 and included in other receivables was £1,447,000 (2016: £1,788,000).

There is an amount of £2,694,000 (2016: £2,616,000) owing to Stonegate Pub Company Midco Limited, the immediate parent company, at 24 September 2017 relating to this transaction. This is included in trade and other payables.

During a prior period the Group issued an interest free loan of £200,000 to Simon Longböttom, a director of Stonegate Pub Company Limited. At 24 September 2017 this amount remained outstanding and was included in other receivables.

Transactions with Group undertakings

During the year the Group was invoiced management charges of £2,039,000 (2016: £1,507,000) by TDR Capital LLP. The amount outstanding at 24 September 2017 was £Nil (2016: £Nil). The Group also operated a handful of public houses on behalf of entities affiliated with investment funds managed by TDR Capital LLP. Purchases for these sites totalled £189,000 (2016: £71,000) and sales owing to the purchasing entities were £230,000 (2016: £69,000), resulting in a balance owing to entities affiliated with investment funds managed by TDR Capital LLP of £39,000 (2016: balance owing to Stonegate Pub Company Limited of £2,000).

During the year £Nil (2016: £47,000) of rent was paid to Pub Freehold Acquisitions S.a.r.L, a company under common control of investment funds managed by TDR Capital LLP. The amount outstanding at 25 September 2016 was £Nil (2016: £Nil).

26 Ultimate parent undertaking

The ultimate parent company is Stonegate Pub Company Holdings Limited, a company incorporated in the Cayman Islands. The ultimate controlling parties are various investment funds managed by TDR Capital LLP, a private equity management firm.

27 Post balance sheet events

Subsequent to the year end, on 8 January 2018, Stonegate Pub Company Limited completed the assignment of one leasehold site from the Administrator of the Tattershall Castle Group. Total consideration is £2,715,000.