CONFIDENTIAL
OFFERING MEMORANDUM

NOT FOR GENERAL DISTRIBUTION
IN THE UNITED STATES

Stonegate Pub Company Financing 2019 plc

£1,223,000,000 (equivalent)

€300,000,000 Floating Rate Senior Secured Notes due 2025

£950,000,000 8.25% Senior Secured Notes due 2025

Stonegate Pub Company Financing 2019 plc (the "Issuer"), a public limited company incorporated under the laws of England and Wales, is offering €300,000,000 aggregate principal amount of its floating rate senior secured notes due 2025 (the "Floating Rate Notes") and £950,000,000 aggregate principal amount of its 8.25% senior secured notes due 2025 (the "New Fixed Rate Notes" and, together with the Floating Rate Notes, the "New Notes"). The Floating Rate Notes and the New Fixed Rate Notes will mature on July 31, 2025. The Issuer is a wholly owned finance subsidiary of Stonegate Pub Company Bidco Holdings Limited ("Holdco"), a private limited company incorporated under the laws of England and Wales. The gross proceeds from the offering of the New Notes (the "Offering") will be used to repay in full the outstanding borrowings under the Senior Bridge Facilities (as defined herein) and £273 million in aggregate principal amount of borrowings under the Senior Term Facilities (as defined herein). See "Use of Proceeds."

The New Fixed Rate Notes will be issued as Additional Notes under the indenture entered into by the Issuer on July 13, 2020 (the "Indenture") pursuant to which the Issuer issued its £500,000,000 aggregate principal amount of 8% senior secured notes due 2025 (the "Existing Fixed Rate Notes"). The Existing Fixed Rate Notes and the New Fixed Rate Notes are collectively referred to herein as the "Fixed Rate Notes" and the Existing Fixed Rate Notes and the New Notes are collectively referred to herein as the "Notes." Except as otherwise specified with respect to the New Fixed Rate Notes, the New Fixed Rate Notes will have the same terms as the Existing Fixed Rate Notes and will constitute a single class of debt securities with the Existing Fixed Rate Notes under the Indenture, including with respect to waivers, amendments and offers to purchase. However, the New Fixed Rate Notes will not form part of the same series of notes as the Existing Fixed Rate Notes. The New Fixed Rate Notes offered hereby will bear a different rate of interest to the Existing Fixed Rate Notes and will have new international securities identification numbers (the "ISINs") and common codes, and will not be fungible with the Existing Fixed Rate Notes. See "Description of the Notes."

The Issuer will pay interest on the Floating Rate Notes quarterly in arrears on each February 15, May 15, August 15 and November 15, commencing on November 15, 2020. The Issuer may redeem some or all of the Floating Rate Notes on or after July 31, 2021, at the redemption prices set out in this offering memorandum (the "Offering Memorandum"), plus accrued and unpaid interest, if any. Prior to July 31, 2021, the Issuer may redeem some or all of the Floating Rate Notes at a price equal to 100% of the principal amount of the Floating Rate Notes redeemed, plus accrued and unpaid interest, if any, plus a "make whole" premium, as described in this Offering Memorandum.

The Issuer will pay interest on the New Fixed Rate Notes semi-annually in arrears on each January 15 and July 15, commencing on January 15, 2021. The Issuer may redeem some or all of the New Fixed Rate Notes on or after July 31, 2022, at the redemption prices set out in this Offering Memorandum, plus accrued and unpaid interest, if any. Prior to July 31, 2022, the Issuer may redeem some or all of the New Fixed Rate Notes at a price equal to 100% of the principal amount of the New Fixed Rate Notes redeemed, plus accrued and unpaid interest, if any, plus a "make whole" premium, as described in this Offering Memorandum. In addition, prior to July 31, 2022, the Issuer may redeem up to 40% of the original aggregate principal amount of the New Fixed Rate Notes (including any additional New Fixed Rate Notes) with the net cash proceeds from certain equity offerings at a price equal to 108.25% of the principal amount of the New Fixed Rate Notes redeemed, plus accrued and unpaid interest, if any, provided that at least 50% of the original aggregate principal amount of the New Fixed Rate Notes (not including any additional New Fixed Rate Notes) remains outstanding after the redemption.

The Issuer may redeem all, but not part, of the Notes at a price equal to 100% of the principal amount plus accrued and unpaid interest, if any, upon the occurrence of certain changes in applicable tax law. Upon the occurrence of certain change of control events, the Issuer may be required to offer to redeem the Notes at 101% of the principal amount redeemed, plus accrued and unpaid interest, if any. However, a change of control will not be deemed to have occurred if certain consolidated leverage ratios are not exceeded in connection with such an event.

The Existing Fixed Rate Notes are, and on the Issue Date the New Notes will be, senior obligations of the Issuer, and the Existing Fixed Rate Notes rank, and on the Issue Date the New Notes will rank, equally in right of payment with all unsubordinated indebtedness of the Issuer, senior to all indebtedness of the Issuer that is subordinated in right of payment to the Notes and effectively senior to all unsecured indebtedness of the Issuer to the extent of the assets securing the Notes. The Existing Fixed Rate Notes are, and on or about the Issue Date, the New Notes will be, guaranteed on a senior secured basis by Stonegate Pub Company Limited (the "Parent") and its material subsidiaries (including Ei and certain of its subsidiaries) (the "Guarantors"). The guarantee of the Notes by each Guarantor (a "Note Guarantee" and, collectively, the "Note Guarantees"), in the case of the Existing Fixed Rate Notes, ranks, and in the case of the New Notes, will rank, equally in right of payment with all the existing and future unsubordinated indebtedness of such Guarantor, senior to all the existing and future indebtedness of such Guarantor that is subordinated in right of payment to such Guarantor's Note Guarantee and effectively senior to all existing and future unsecured indebtedness of such Guarantor to the extent of the assets securing such Guarantor's Note Guarantee. The Note Guarantees, in the case of the Existing Fixed Rate Notes are, and in the case of the New Notes will be, subject to the Agreed Security Principles (as defined herein) and the Indenture. See "Description of the Notes—Note Guarantees." The Existing Fixed Rate Notes are, and upon their issuance and subject to the Agreed Security Principles, the applicable Security Documents (as defined herein) and Permitted Collateral Liens (as defined herein), the New Notes will be, secured by certain material assets of the Issuer and the Guarantors. The Collateral (as defined herein) also secures obligations under the Revolving Facilities Agreement (as defined herein), the Senior Term Facilities Agreement (as defined herein) and the Second Lien Facility Agreement (as defined herein). Pursuant to the terms of the Intercreditor Agreement (as defined herein), any liabilities in respect of obligations under the Revolving Facilities Agreement, any Hedging Agreements (as defined herein) and any Operating Facility (as defined in the Intercreditor Agreement) that are secured by assets that also secure obligations under the Notes and the Note Guarantees, will receive priority with respect to any proceeds received upon any enforcement action over any such assets.

There is currently no public market for the New Notes. Application will be made to The International Stock Exchange Authority Limited (the "Authority") for the listing of the New Notes on the Official List of The International Stock Exchange (the "Exchange") and admission to trade on the Exchange. There is no assurance that the New Notes will be listed on the Official List of the Exchange. The Exchange is not a regulated market for purposes of MiFID II.

Investing in the New Notes involves risks. See "Risk Factors" beginning on page 53.

Issue price of the Floating Rate Notes: 93.00% plus accrued interest, if any, from the Issue Date.
Issue price of the New Fixed Rate Notes: 100.00% plus accrued interest, if any, from the Issue Date.

The New Notes and the Note Guarantees have not been and will not be registered under the Securities Act of 1933 as amended (the "Securities Act"), or the securities laws of any state of the United States or any other jurisdiction. Accordingly, the New Notes are being offered and sold in the United States only to "qualified institutional buyers" in accordance with Rule 144A under the Securities Act ("Rule 144A") and to persons who are not U.S. persons and are outside the United States in accordance with Regulation S under the Securities Act ("Regulation S"). Prospective purchasers of the New Notes that are qualified institutional buyers are hereby notified that the seller may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For further details about eligible offerees and resale restrictions, see "Transfer Restrictions."

The New Notes will be issued in the form of global notes in registered form. See "Book-entry, Delivery and Form." We expect the Notes to be delivered to investors in book-entry form through Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream") on or about July 31, 2020.

Joint Global Coordinators and Bookrunners

Barclays **Goldman Sachs International** **Nomura**

Joint Bookrunners

Deutsche Bank **Lloyds Bank Corporate Markets** **Rabobank**

The date of this Offering Memorandum is July 24, 2020

You should rely only on the information contained in this Offering Memorandum. We have not, and Barclays Bank PLC, Goldman Sachs International, Nomura International plc, Deutsche Bank AG, London Branch, Lloyds Bank Corporate Markets plc and Cöoperatieve Rabobank U.A. trading as Rabobank London (the "Initial Purchasers") have not, authorized anyone to provide you with information that is different from the information contained herein. You should not assume that the information contained in this Offering Memorandum is accurate as of any date other than the date on the front of this Offering Memorandum.

We are not, and the Initial Purchasers are not, making an offer of these securities in any jurisdiction where such offer is not permitted. If a jurisdiction requires that the Offering be made by a licensed broker or dealer and the Initial Purchasers or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the Offering shall be deemed to be made by the Initial Purchasers or such affiliate on behalf of the Issuer in such jurisdiction.

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Stonegate Pub Company Financing 2019 plc (the "Issuer") is a public limited company incorporated under the laws of England and Wales. The registered office of the Issuer in the United Kingdom is Porter Tun House, 500 Capability Green, Luton, Bedfordshire, LU1 3LS, United Kingdom and its telephone number at that address is +44 (0) 845 126 2944.

Important Information About This Offering

This Offering Memorandum does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation. No action has been, or will be, taken to permit a public offering in any jurisdiction where action would be required for that purpose. Accordingly, the New Notes may not be offered or sold, directly or indirectly, nor may this Offering Memorandum be distributed, in any jurisdiction except in accordance with the legal requirements applicable in such jurisdiction.

This Offering Memorandum is confidential and has been prepared by us solely for use in connection with this Offering. This Offering Memorandum is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the New Notes. Distribution of this Offering Memorandum to any person other than the prospective investor and any person retained to advise such prospective investor with respect to the purchase of the New Notes is unauthorized, and any disclosure of any of the contents of this Offering Memorandum, without our prior written consent, is prohibited. Each prospective investor, by accepting delivery of this Offering Memorandum, agrees to the foregoing and agrees not to make photocopies of this Offering Memorandum or any documents referred to in this Offering Memorandum.

In making an investment decision, prospective investors must rely on their own examination of our company and the terms of this Offering, including the merits and risks involved. In addition, neither we nor the Initial Purchasers nor any of our or their respective representatives, or affiliates are making any representation to you regarding the legality of an investment in the New Notes, and you should not construe anything in this Offering Memorandum as legal, business, tax or other advice. You should consult your own advisors as to the legal, tax, business, financial, regulatory and other aspects of an investment in the New Notes. You must comply with all laws applicable in any jurisdiction in which you buy, offer or sell the New Notes or possess or distribute this Offering Memorandum, and you must obtain all applicable consents and approvals; neither we nor the Initial Purchasers shall have any responsibility for any of the foregoing legal and other requirements.

This Offering Memorandum is based on information provided by us and other sources that we believe to be reliable. None of the Initial Purchasers or any of their respective affiliates are making any representation or warranty, express or implied, that this information is accurate, adequate or complete and is not responsible for this information. Nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise or representation by the Initial Purchasers or their affiliates as to the past or future. In this Offering Memorandum, we have summarized certain documents and other information in a manner we believe to be accurate, but we refer you to the actual documents for a more complete understanding.

We accept responsibility for the information contained in this Offering Memorandum. To the best of our knowledge and belief, having taken all reasonable care to ensure that such is the case, the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything material that is likely to affect the import of such information.

The information contained in this Offering Memorandum is correct as of the date hereof. Neither the delivery of this Offering Memorandum at any time after the date of publication nor any subsequent commitment to purchase the New Notes shall, under any circumstances, create an implication that there has been no change in the information set forth in this Offering Memorandum or in our business since the date of this Offering Memorandum.

The information contained in this Offering Memorandum under the caption "Exchange Rate Information" includes extracts from information and data publicly released by official and other sources. While we accept responsibility for accurately summarizing such information, we accept no further responsibility in respect thereto.

The information set out in relation to sections of this Offering Memorandum describing clearing arrangements, including the section entitled "Book-entry, Delivery and Form," is subject to any change in, or reinterpretation of, the rules, regulations and procedures of Euroclear or Clearstream currently in effect. While we accept responsibility for accurately summarizing the information concerning Euroclear and Clearstream, we accept no further responsibility in respect of such information. Euroclear and Clearstream are not under any obligation to perform or continue to perform under such clearing arrangements and such arrangements may be modified or discontinued by any of them at any time. We will not, nor will any of our agents, have responsibility for the performance of the respective obligations of Euroclear and Clearstream or their respective participants. Investors wishing to use these clearing systems are advised to confirm the continued applicability of these arrangements.

By receiving this Offering Memorandum, you acknowledge that you have had an opportunity to request from us for review, and that you have received, all additional information you deem necessary to verify the accuracy and completeness of the information contained in this Offering Memorandum. You also acknowledge that you have not relied on the Initial Purchasers in connection with your investigation of the accuracy, adequacy or completeness of this information or your decision whether to invest in the New Notes.

None of the U.S. Securities and Exchange Commission (the "SEC"), any state securities commission or any other regulatory authority has approved or disapproved of the New Notes, nor have any of the foregoing authorities passed upon or endorsed the merits of this Offering or the accuracy or adequacy of this Offering Memorandum. Any representation to the contrary could be a criminal offense in certain countries.

The New Notes are subject to restrictions on transferability and resale and may not be transferred or resold, except as permitted under the Securities Act and the applicable state securities laws, pursuant to registration or exemption therefrom. As a prospective investor, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. Please refer to the sections in this Offering Memorandum entitled "Plan of Distribution" and "Transfer Restrictions."

The New Notes will be available initially only in book-entry form. We expect that the New Notes sold pursuant to this Offering Memorandum will be issued in the form of one or more global notes, which will be deposited with, or on behalf of, a common depositary and registered in the name of the nominee of the common depositary for the accounts of Euroclear and Clearstream. Beneficial interests in the global notes will be shown on, and transfers of beneficial interests in the global notes will be effected only through, records maintained by Euroclear and Clearstream and their direct and indirect participants, as applicable. After the initial issuance of the global notes, the New Notes in certificated form will be issued in exchange for the global notes only as set forth in the Indenture (as defined herein). See "Book-entry, Delivery and Form."

We reserve the right to withdraw this Offering at any time. We are making this Offering subject to the terms described in this Offering Memorandum and the purchase agreement relating to the New Notes (the "Purchase Agreement"). We and the Initial Purchasers also reserve the right to reject any offer to purchase the New Notes in whole or in part for any reason or no reason and to allot to any prospective purchaser less than the full amount of the New Notes sought by it. The Initial Purchasers and certain of their respective related entities may acquire, for their own accounts, a portion of the New Notes.

Application will be made to the Authority for the listing of the New Notes on the Official List of the Exchange, and we will submit this Offering Memorandum to the competent authority in connection with the listing application. In the course of any review by the competent authority, we may be requested to make changes to the financial and other information included in this Offering Memorandum in producing listing particulars for such listing. Comments by the competent authority may require significant modification or reformulation of information contained in this Offering Memorandum or may require the inclusion of additional information. We may also be required to update the information in this Offering Memorandum to reflect changes in our business, financial condition or results of operations and prospects. We cannot guarantee that our application for admission of the New Notes on the Exchange will be approved and settlement of the New Notes is not conditioned on obtaining this listing.

STABILIZATION

IN CONNECTION WITH THE OFFERING OF THE NEW NOTES, BARCLAYS BANK PLC (THE "STABILIZING MANAGER") (OR PERSONS ACTING ON ITS BEHALF) MAY OVER-ALLOT THE NEW NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NEW NOTES DURING THE STABILIZATION PERIOD AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILIZATION ACTION MAY NOT NECESSARILY OCCUR. ANY STABILIZATION ACTION MAY BEGIN ON OR AFTER THE DATE OF ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFERING OF THE NEW NOTES AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN 30 CALENDAR DAYS AFTER THE DATE ON WHICH THE ISSUER RECEIVED THE PROCEEDS OF THE OFFERING, OR NO LATER THAN 60 CALENDAR DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NEW NOTES, WHICHEVER IS THE EARLIER. ANY STABILIZATION ACTION OR OVERALLOTMENT MUST BE CONDUCTED BY THE STABILIZING MANAGER (OR PERSONS ACTING ON ITS BEHALF) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

Each purchaser of the New Notes will be deemed to have made the representations, warranties and acknowledgements that are described in this Offering Memorandum under the "Transfer Restrictions" section of this Offering Memorandum.

Alternative Settlement Cycle

We expect that the delivery of the New Notes will be made against payment therefor on or about July 31, 2020, which will be five business days following the date of pricing of the New Notes (such settlement cycle being herein referred to as "T+5"). Under Rule 15(c)6-1 under the Exchange Act (as defined herein), trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the New Notes prior to the fifth business day before settlement will be required, by virtue of the fact that the New Notes initially will settle T+5, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the New Notes who wish to trade the New Notes prior to the fifth business day before settlement should consult their advisors.

Notice to Investors in the United States

The New Notes and the Note Guarantees have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States and may not be offered or sold in the United States, except to qualified institutional buyers within the meaning of Rule 144A, in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The New Notes may be offered and sold to persons who are not U.S. persons and are outside the United States in reliance on Regulation S. Prospective investors are hereby notified that sellers of the New Notes may be relying on the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on transfers of the New Notes, see "Transfer Restrictions."

Neither the SEC, any U.S. state securities commission nor any non-U.S. securities authority has approved or disapproved of these securities or determined that this Offering Memorandum is accurate or complete. Any representation to the contrary is a criminal offence.

Notice to Investors in the European Economic Area and in the United Kingdom

Prohibition of Sales to Retail Investors in the EEA and in the United Kingdom

The New Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA or in the United Kingdom. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the New Notes or otherwise making them available to retail investors in the EEA or in the United Kingdom has been prepared and therefore offering or selling the New Notes or otherwise making them available to any retail investor in the EEA or in the United Kingdom may be unlawful under the PRIIPs Regulation. The Offering Memorandum has been prepared on the basis that any offer of New Notes in any member state of the EEA or in the United Kingdom will be made pursuant to an exemption under the Prospectus Regulation from the requirement to publish a prospectus for offers of New Notes. The expression "Prospectus Regulation" means Regulation (EU) 2017/1129 (as amended).

Professional Investors and ECPs Only Target Market

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the New Notes has led to the conclusion that: (i) the target market for the New Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the New Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the New Notes (a "distributor") should take into consideration each manufacturer's target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the New Notes (by either adopting or refining each manufacturer's target market assessment) and determining appropriate distribution channels.

Notice to Investors in the United Kingdom

In the United Kingdom, this Offering Memorandum and any other material in relation to the New Notes described herein are being distributed only to, and are directed only at persons who are qualified investors (as defined in the Prospectus Regulation) who are (i) persons having professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Order"), or (ii) high net worth entities falling within Article 49(2)(a) to (d) of the Order, or (iii) persons to whom it would otherwise be lawful to distribute them, all such persons together being referred to as "Relevant Persons." In the United Kingdom, the New Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such New Notes will be engaged in only with, Relevant Persons. This Offering Memorandum and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by any recipients to any other person in the United Kingdom. Any person in the United Kingdom that is not a Relevant Person should not act or rely on this Offering Memorandum or its contents. The New Notes are not being offered to the public in the United Kingdom.

In connection with this Offering, the Initial Purchasers are not acting for anyone other than the Issuer and will not be responsible to anyone other than the Issuer for providing the protections afforded to its clients nor for providing advice in relation to this Offering.

Notice to Investors in Canada

The New Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the New Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts ("NI 33-105"), the Initial Purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Forward-Looking Statements

This Offering Memorandum contains "forward-looking statements" within the meaning of the securities laws of certain jurisdictions, including statements under the captions "Summary," "Risk Factors," "Stonegate Group Management's Discussion and Analysis of Financial Condition and Results of Operations," "Ei Group Management's Discussion and Analysis of Financial Condition and Results of Operations," "Industry," "Stonegate Group's Business," "Ei Group's Business" and in other sections. In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, such as the words "believes," "could," "estimates," "anticipates," "expects," "intends," "may," "will," "plans," "continue," "ongoing," "potential," "predict," "project," "target," "seek," "should" or "would" or, in each case, their negative or other variations or comparable terminology or by discussions of strategies, plans, objectives, targets, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They may appear in a number of places throughout this Offering Memorandum and may include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and dividend policy and the industry in which we operate.

By their nature, forward-looking statements involve known and unknown risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. You should not place undue reliance on forward-looking statements.

Many factors may cause our results of operations, financial condition, liquidity and the development of the industry in which we compete to differ materially from those expressed or implied by the forward-looking statements contained in this Offering Memorandum.

These factors include, among other things:

- the impact of the COVID-19 pandemic on our business and its effect on our customers' ability or desire to access our pubs;
- uncertainty on our ability to continue as a going concern;
- the severe disruptions in the United Kingdom and the global economy caused by the spread of the COVID-19 pandemic and the impact on our liquidity and access to capital;
- changes in the macroeconomic environment in the United Kingdom;

- legal, political and economic uncertainty surrounding the exit of the United Kingdom from the European Union;
- the trend in migration of business to alternative shopping channels or locations;
- competition in our industry;
- changes in consumer preferences and perceptions;
- our ability to successfully implement our strategic and financial objectives;
- partner/labor shortages, increased labor costs and other adverse effects of varying labor conditions;
- changes in government regulation and legislation;
- our ability to recover the expenditures for our capital projects;
- failure to diversify our income streams;
- increases in student tuition and other changes in the UK welfare system;
- increase in subscription prices for broadcasting services relating to major sporting events;
- our ability to identify appropriate acquisition targets and successfully integrate the businesses that we acquire;
- that our acquisition agreements in respect of our acquisitions may not fully cover us from claims and liabilities that may arise in connection with such acquisitions;
- impact of public holidays, the timing of major sporting events and weather conditions;
- loss of our key suppliers;
- volatility in global food and drink prices and energy costs;
- our ability to effectively maintain and manage our property leaseholds;
- decreased rents due to rent determination and review arrangements in lease and tenancy agreements;
- inability to control the operations of leased and tenanted pubs and commercial properties;
- failure of pub licensees to pay rental and other payments owed;
- compulsory purchase orders being made in respect of a property;
- negative publicity relating to one or more of our pubs or brands;
- disease outbreaks or incidents of food or drink contamination at our pubs;
- employment-related claims;
- loss of our key personnel;
- environmental compliance costs;
- increased costs to cover deficits with respect to our pension schemes;
- insufficient insurance;
- disruptions in our information technology systems;
- further consolidation in our industry;
- our ability to adequately protect our intellectual property;
- cash theft;
- failure to comply with data protection laws and regulation;
- adverse litigation judgments;
- our ability to realize the adjustments to Pro Forma Adjusted EBITDA (excluding the impact of IFRS 16) in order to arrive at our estimated Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS 16);
- incorrect or inaccurate assumptions used in the Valuation Reports;
- tax risks;

- uncertainties and risks associated with the Transaction;
- terrorist attacks, war, and threats of attacks and war; and
- other factors discussed under "Risk Factors."

These risks and others described under "Risk Factors" are not exhaustive. Other sections of this Offering Memorandum describe additional factors that could adversely affect our results of operations, financial condition, liquidity and the development of the industry in which we operate. New risks can emerge from time to time, and it is not possible for us to predict all such risks, nor can we assess the impact of all such risks on our business or the extent to which any risks, or combination of risks and other factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, you should not rely on forward-looking statements as a prediction of actual results.

Any forward-looking statements are only made as of the date of this Offering Memorandum and we do not intend, and do not assume any obligation, to update forward-looking statements set forth in this Offering Memorandum. You should interpret all subsequent written or oral forward-looking statements attributable to us or to persons acting on our behalf as being qualified by the cautionary statements in this Offering Memorandum. As a result, you should not place undue reliance on forward-looking statements.

Industry and Market Data

The market and competitive position data in the sections "Summary," "Risk Factors," "Stonegate Group Management's Discussion and Analysis of Financial Condition and Results of Operations," "Ei Group Management's Discussion and Analysis of Financial Condition and Results of Operations," "Industry," "Stonegate Group's Business" and "Ei Group's Business" of this Offering Memorandum are estimates by management based on industry publications, and from surveys or studies conducted by third-party industry data providers that are generally believed to be reliable. However, the accuracy and completeness of such information is not guaranteed and has not been independently verified. Additionally, industry publications and such studies generally state that the information contained therein has been obtained from sources believed to be reliable, but the accuracy or completeness of such information is not guaranteed and in some instances the sources do not assume liability for such information. We have obtained certain of the market and industry data presented in this Offering Memorandum from reports produced by third-party industry specialists such as the British Beer and Pub Association ("BBPA"), CGA and Experian, and we have obtained consent from them to reproduce certain of their non-public data in this Offering Memorandum. We cannot assure you of the accuracy and completeness of such data, and we have not independently verified such market data and such data should not be relied upon in making, or refraining from making, any investment decision. We do, however, accept responsibility for the correct reproduction of this information. In light of the COVID-19 pandemic, the pubs and bars sector in the United Kingdom has been adversely affected. Accordingly, the industry publications, surveys or studies by third-party data providers referred to in this Offering Memorandum may not accurately reflect certain aspects of the pubs and bars sector in the United Kingdom as they may not contemplate the effects of the COVID-19 pandemic. In particular, market or industry forecasts referred to in this Offering Memorandum have not been revised in light of the impact of the COVID-19 pandemic on the UK pubs and bars sector, and we cannot assure you that these forecasts will remain relevant, and will not be subject to change, as the effects of the COVID-19 pandemic on this sector become more apparent.

Some of the information herein has been extrapolated from such market data or reports using our experience and internal estimates. Elsewhere in this Offering Memorandum, statements regarding the industry in which we operate and our position in this industry are based solely on our experience, internal studies and estimates, and our own investigation of market conditions. We believe that such information and statements are true and accurate, but there can be no assurance that is the case. Such information and statements have not been verified by any independent sources. While we are not aware of any misstatements regarding such information, statements and any similar data presented herein, such information, statements or similar data are subject to change based on various factors, including those discussed under the heading "Risk Factors" in this Offering Memorandum. As a result, neither we nor the Initial Purchasers make any representation as to the accuracy or completeness of any such information or statements in this Offering Memorandum.

Further, in this Offering Memorandum, we make statements about our market positioning relative to other pub operators, and we also present comparative data of certain of our peer pub operators. These statements are generally based on our experience, internal studies and estimates, and our own evaluation of our competitors in the market. In general, we have identified our main competitors as the largest pub operators in the United Kingdom by number of pubs. Where we present comparative data of certain of these peer pub operators, we have derived such data from the publicly available information of these peer pub operators or industry publications, surveys or studies by third-party data providers. In addition, the like for like sales growth data of certain of our peers that we present in this Offering Memorandum is comprised of the aggregate weekly drinks, sales, admissions and accommodations sales for the period presented rather than total revenue. Accordingly, for consistency, we compare the like for like sales data of our peers against the Stonegate Group Adjusted Revenue Growth (Like for Like) rather than the Stonegate Group Revenue Growth (Like for Like). While Stonegate Group's and its peers' definition of like for like sales growth is generally comparable, the methodology used by our peers in calculating like for like sales growth may differ in certain respects amongst one another and from our methodology for calculating the Stonegate Group Adjusted Revenue Growth (Like for Like). We cannot guarantee that the comparative peer data that we present in this Offering Memorandum has been prepared or presented on a comparable basis to our own key operating information. We cannot guarantee that the comparative peer data that we present in this Offering Memorandum has been prepared or presented on a comparable basis to our own key operating information. We also cannot guarantee the accuracy and completeness of such comparative peer data, and we have not independently verified or reviewed such peer data and such data should not be relied upon in making, or refraining from making, any investment decision. Accordingly, the comparative peer data presented in this Offering Memorandum should be treated with caution, as such information may not be directly comparable to our own key operating information.

In this Offering Memorandum, the statements that relate to the market position of the combined group are based on number of sites as of April 12, 2020.

Certain Definitions

Key Performance Indicators (KPIs) and Other Non-IFRS Metrics

Certain key performance indicators used in this Offering Memorandum are defined as follows:

Stonegate Group KPIs and other non-IFRS Metrics

- "Stonegate Group Acquisition Capital Expenditure" represents payments made by Stonegate Group to acquire trading sites;
- "Stonegate Group Adjusted EBITDA" represents Stonegate Group Pre-adjusted EBITDA excluding acquisition costs, restructuring and integration costs, discretionary management bonus payments under our prior management incentive program, operational restructuring and redundancy costs, costs and credits related to onerous leases, discretionary management fees, pension-related costs relating to our defined benefit pension scheme, losses on disposed/non-trading sites and costs such as legal and professional fees relating to tax enquiries and our management incentive program, consultancy fees paid to the previous directors of Fever Bars, certain dilapidation and repair costs and costs related to lease assignments for expired leases. This metric, which, unless otherwise specified, is presented on a 52-week basis in the case of the 53 weeks ended September 30, 2018 to enhance comparability, by deducting the 53rd week's sales, less operating costs for this week, assumed to be at a consistent margin for the last period (last four weeks to September 30, 2018), less the wages for this week, assumed to be the wages as a consistent percentage of revenue for the last period, and less the variable operating expenses for this week, assumed to be one quarter of the last period costs. Key fixed costs, such as rents, business rates and salaries do not require adjustments because they are annual costs;
- "Stonegate Group Adjusted EBITDAR" represents Stonegate Group Adjusted EBITDA plus Stonegate Group's operating lease rentals;
- "Stonegate Group Adjusted EBITDA Margin" represents Stonegate Group Adjusted EBITDA divided by Stonegate Group's historical revenue;
- "Stonegate Group Adjusted Revenue Growth (Like for Like)" for the applicable period, represents Stonegate Group's revenue adjusted to present aggregate change in drinks, food, admissions and accommodations sales only compared to the previous comparable period made at all pubs open and operated by Stonegate Group in either its branded or unbranded group throughout the current and previous period and is intended to provide a basis for comparison of Stonegate Group's revenue growth on a like for like basis, against similar metrics reported by certain of its peer managed pub operators for their respective 2019 annual reporting periods;
- "Stonegate Group Branded Revenue" represents, for the relevant period, revenue relating to Stonegate Group's branded group of pubs;

- "Stonegate Group Capital Expenditure" is an IFRS metric and represents the sum of Stonegate Group's purchase of property, plant and equipment and payments to acquire trading sites for the periods presented, which, for operational purposes, we categorize as Stonegate Group Acquisition Capital Expenditure, Stonegate Group Investment Capital Expenditure and Stonegate Group Maintenance Capital Expenditure;
- "Stonegate Group Cash Conversion" represents Stonegate Group Adjusted EBITDA (for a 52-week period in the case of the 53 weeks ended September 30, 2018) less Stonegate Group Maintenance Capital Expenditure, divided by Stonegate Group Adjusted EBITDA (for a 52-week period in the case of the 53 weeks ended September 30, 2018);
- "Stonegate Group Drink Sales Growth (Like for Like)" represents, for the relevant period, Stonegate Group's aggregate change in revenue from drinks sales compared to the previous comparable period made at all pubs open and operated in either Stonegate Group's branded or unbranded group throughout the current and previous period, taking into account the first 52 weeks' results in the case of the 53 weeks ended September 30, 2018, to enhance comparability;
- "Stonegate Group Food Sales Growth (Like for Like)" represents, for the relevant period, Stonegate Group's aggregate change in revenue from food sales compared to the previous comparable period made at all pubs open and operated in either Stonegate Group's branded or unbranded group throughout the current and previous period, taking into account the first 52 weeks' results in the case of the 53 weeks ended September 30, 2018, to enhance comparability;
- "Stonegate Group Gross Margin for Drinks (Ongoing)" represents, for the relevant period, (i) Stonegate Group's revenue from drinks sales (excluding revenue from drinks sales at disposed sites) minus cost of the drinks purchased (excluding costs of drinks purchased at disposed sites), divided by (ii) Stonegate Group's revenue from drinks sales (excluding revenue from drinks sales at disposed sites);
- "Stonegate Group Gross Margin for Food (Ongoing)" represents, for the relevant period, (i) Stonegate Group's revenue from food sales (excluding revenue from food sales at disposed sites) minus cost of the food purchased (excluding costs of food purchased at disposed sites), divided by (ii) Stonegate Group's revenue from food sales (excluding revenue from food sales at disposed sites);
- "Stonegate Group Gross Margin Growth (Like for Like)" represents, for the relevant period, Stonegate Group's change in total gross margin (calculated as Stonegate Group's total revenue minus total operating costs divided by total revenue) compared to the previous comparable period relating to all pubs open and operated in either Stonegate Group's branded or unbranded group throughout the current and previous period, taking into account the first 52 weeks' results in the case of the 53 weeks ended September 30, 2018, to enhance comparability;
- "Stonegate Group Investment Capital Expenditure" represents amounts recorded in Stonegate Group's accounting system as capital expenditure incurred in connection with extending the capacity of, or refurbishing, its pubs. Amounts recorded in this manner must be supported by senior management-approved investment appraisals;
- "Stonegate Group Maintenance Capital Expenditure" represents all of Stonegate Group's capital expenditure that is not Stonegate Group Acquisition Capital Expenditure or Stonegate Group Investment Capital Expenditure and includes, among other things, capital expenditures on kitchen electricals and appliances (large and small), roof maintenance, business projects (e.g., wifi installations at sites, website development, installation of point of sale machines and card readers at our sites) and certain capitalized labor costs (e.g., costs of project managers and design teams associated with our investment projects);
- "Stonegate Group Pre-adjusted EBITDA" represents Stonegate Group's profit/(loss) for the period excluding UK income tax credit/(charge), finance income, finance costs, depreciation, amortization and impairment and (profit)/loss on disposal of non-current assets;
- "Stonegate Group Property Asset Value" represents the property asset value of 761 sites of Stonegate Group as of September 29, 2019, determined by Davis Coffer Lyons;
- "Stonegate Group Pub Profit Growth (Like for Like)" represents, for the relevant period, the aggregate change in the Stonegate Group Pre-adjusted EBITDA (less group overhead costs) compared to the previous comparable period made at all pubs open and operated in either Stonegate Group's branded or unbranded group throughout the current and previous period, taking into account the first 52 weeks' results in the case of the 53 weeks ended September 30, 2018, to enhance comparability;

- "Stonegate Group Return on Investment" represents, for all pubs invested during the 156 weeks preceding the date on which we present the Stonegate Group Return on Investment, the difference between the annualized (on a 52-week basis) weekly average post-investment Stonegate Group Pre-adjusted EBITDA (from the first full four-week period after the re-opening of such pubs) and the 52-week pre-investment Stonegate Group Pre-adjusted EBITDA of those pubs (to the end of the last full four-week period), divided by the aggregate Stonegate Group Investment Capital Expenditure invested in these pubs over the same 156 weeks. Where a pub has traded for less than 52 weeks post-investment, we have not taken it into account when calculating the Stonegate Group Return on Investment. Pubs where we have not made a Stonegate Group Investment Capital Expenditure in the past 156 weeks are classed as uninvested. Where we present the Stonegate Group Return on Investment from Stonegate Group Second-Cycle Invested Sites (which refers to the Stonegate Group Return on Investment for sites in which we have made a second round of capital investment), such Stonegate Group Return on Investment has been calculated in line with the "Stonegate Group Return on Investment" definition;
- "Stonegate Group Revenue Growth (Like for Like)" represents, for the relevant period, Stonegate Group's aggregate change in revenue compared to the previous comparable period made at all pubs open and operated in either Stonegate Group's branded or unbranded group throughout the current and previous period, taking into account the first 52 weeks' results in the case of the 53 weeks ended September 30, 2018, to enhance comparability;
- "Stonegate Group Total Gross Margin (Ongoing)" represents, for the relevant period, Stonegate Group's total revenue (excluding revenue at disposed sites) minus total operating costs (excluding operating costs at disposed sites), divided by total revenue (excluding revenue at disposed sites); and
- "Stonegate Group Unbranded Revenue" represents, for the relevant period. Stonegate Group's revenue relating to its unbranded group of pubs.

Ei Group KPIs and other Non-IFRS Metrics

- "Ei Group Cash Conversion" represents Ei Group Underlying EBITDA less Ei Group Letting and Maintenance Capital Expenditure, divided by Ei Group Underlying EBITDA;
- "Ei Group Capital Expenditure" represents the sum of Ei Group Growth Capital Expenditure and Ei Group Letting and Maintenance Capital Expenditure;
- "Ei Group Commercial Properties Site EBITDA" represents the Ei Group Underlying EBITDA for Ei Group Commercial Property assets trading at the end of the period (excluding income in respect of disposals and other non like for like net income and costs and including net income relating to the pubs before they were transferred to the Commercial Properties segment, offset by unlicensed property income) divided by the total Ei Group Commercial Property assets trading at the end of the period;
- "Ei Group EBITDA" represents Ei Group's earnings before finance costs, tax, depreciation and amortization;
- "Ei Group Growth Capital Expenditure" represents Ei Group's capital expenditure on its assets, intended to generate incremental income at returns ahead of its targeted return on investment;
- "Ei Group Letting and Maintenance Capital Expenditure" represents all Ei Group Capital Expenditure that is not Ei Group Growth Capital Expenditure and includes capital expenditure made by Ei Group to maintain the quality of its assets and support the Ei Group Publican Partnerships;
- "Ei Group Like for Like Commercial Properties Net Income Growth" represents the percentage growth in the asset level net income from the Ei Group Commercial Properties estate for all assets that have traded as Ei Group Commercial Properties for at least one full year prior to the start of the relevant period excluding income in respect of disposals and other non like for like net income and costs;
- "Ei Group Like for Like Publican Partnerships Net Income Growth" represents the percentage growth in the pub level net income from the Ei Group Publican Partnerships estate for all pubs that have traded as Ei Group Publican Partnership pubs for at least one full year prior to the start of the relevant period excluding income in respect of disposals and other non like for like net income and costs;

- "Ei Group Managed Investments Return on Investment" represents the return on investment for pubs in Ei Group's Managed Investments division trading for more than six months following a growth capital investment of greater than £20,000, calculated by dividing the incremental income delivered as a result of such investment by the value of such capital investment and, in each case, excluding the minority interest of the expert partners;
- "Ei Group Managed Operations Return on Investment" represents the return on investment for pubs in Ei Group's Managed Operations division trading for more than six months following a growth capital investment of greater than £20,000, calculated by dividing the incremental income delivered as a result of such investment by the value of such capital investment;
- "Ei Group Managed Pubs Like for Like Sales Growth" represents the percentage growth in the revenue from sites in the Ei Group Managed Pubs estate which were invested at least one full year prior to the start of the relevant period;
- "Ei Group Property Asset Value" represents the sum of property, plant and equipment, investment property, non-current assets held for sale and intangible assets of Ei Group, derived from Ei Group's balance sheet as of September 30, 2019, which is based on an annual valuation exercise of Ei Group's estate carried out by Avison Young/GVA Grimley Limited, Colliers International Property Advisers UK LLP, Independent Chartered Surveyors, and the internal estates director of Ei Group;
- "Ei Group Publican Partnership Pubs Site EBITDA" represents the Ei Group Underlying EBITDA for Ei Group Publican Partnership pubs trading at the end of the period (excluding income in respect of disposals and other non like for like net income and costs) divided by the number of Ei Group Publican Partnership pubs trading at the end of the period;
- "Ei Group Publican Partnerships Return on Investment" represents the return on investment for pubs in the Ei Group Publican Partnerships segment trading for more than three months following a growth capital investment of greater than £20,000, calculated by dividing the incremental income delivered as a result of such investment by the value of such capital investment;
- "Ei Group Return on Investment" represents the return on investment for all pubs in Ei Group's estate trading for more than three months following a growth capital investment of greater than £20,000, calculated by dividing the incremental income delivered as a result of such investment by the value of such capital investment. In respect of recently opened pubs in the Ei Group Managed Pubs segment, incremental income is calculated based on EBITDA based on current site performance;
- "Ei Group Underlying EBITDA" represents Ei Group EBITDA excluding non-underlying items;
- "Ei Group Underlying EBITDA Margin" represents Ei Group Underlying EBITDA divided by Ei Group revenue;
- "Unique Group EBITDA" represents, in respect of UPP, its earnings before finance costs, tax, depreciation and amortization, and excluding the impact of IFRS 16, which has been derived from UPP's standalone financial statements;
- "Unique Group Adjusted Net Debt" represents the total debt less cash of Unique Group, calculated as follows. Total debt of Unique Group represents the aggregate principal amount of the outstanding Unique Securitized Notes as of December 28, 2019 of £683 million. Total cash of Unique Group represents cash at UPP as of December 28, 2019 of £110 million and cash at the Unique Issuer as of December 28, 2019 of £1 million. Unique Group Adjusted Net Debt does not include the fair value premium attributed to Unique Securitized Notes in the consolidated balance sheet of Ei Group as of December 28, 2019 of £9 million or deduct the capitalized debt issue costs in relation to the Unique Securitized Notes of £6 million;
- "Unique Group LTV Ratio" represents the ratio of Unique Group Adjusted Net Debt as of December 28, 2019 to the Unique Group Property Asset Value as of September 30, 2019;
- "Unique Group Property Asset Value" represents the Ei Group Property Asset Value in relation to the pubs beneficially owned by Unique Group;
- "Unique Group Underlying EBITDA" represents Unique Group EBITDA excluding certain non-underlying items.

Combined Group KPIs and other Non-IFRS Metrics

- "Adjusted Cash Interest Expense" represents Stonegate Group's interest expense in cash adjusted to give effect to the Transaction Financing, and the application of the proceeds therefrom;"
- "Adjusted Net Debt" represents Stonegate Group's net debt as of January 19, 2020 less Stonegate Group's lease liability as of January 19, 2020 (calculated in accordance with IFRS 16), as adjusted to give effect to the Transaction Financing and £50 million of equity contribution by TDR Capital in July 2020, and the application of the proceeds therefrom;
- "Combined Group Adjusted EBITDA (excluding the impact of IFRS 16)" represents the sum of (i) Stonegate Group Adjusted EBITDA (excluding the impact of IFRS 16) for the 28 weeks ended April 12, 2020, (ii) Ei Group Underlying EBITDA (excluding the impact of IFRS 16) for the 13 weeks ended December 28, 2019 and (iii) Ei Group Underlying EBITDA (excluding the impact of IFRS 16) for the period from December 29, 2019 to March 2, 2020;
- "Combined LTV Ratio" represents the ratio of Adjusted Net Debt as of January 19, 2020 to the sum of Stonegate Group Property Asset Value and the Ei Group Property Asset Value;
- "Pro Forma Adjusted EBITDA (excluding the impact of IFRS 16)" represents the sum of Stonegate Group Adjusted EBITDA (excluding the impact of IFRS 16) for the 52 weeks ended January 19, 2020 and Ei Group Underlying EBITDA (excluding the impact of IFRS 16) for the 52 weeks ended December 28, 2019 as adjusted for the disposal of 355 Ei Group Commercial Properties assets and 124 assets in the ordinary course during this period;
- "Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS 16)" represents Pro Forma Adjusted EBITDA (excluding the impact of IFRS 16) adjusted to give effect to: (i) certain estimated cost savings in connection with the Transaction; (ii) certain estimated cost savings in connection with the Be At One Acquisition and the Fever Bars Acquisition; (iii) adjustments made to give 52-week effect to the incremental site EBITDA generated post-investment at certain of our pubs in which we have invested during the 52 weeks ended January 19, 2020, as if such investments had occurred on January 21, 2019; (iv) the site EBITDA of certain pubs in which we have invested during the 52 weeks ended January 19, 2020 for the periods in which those pubs were closed for renovation or refurbishment; and (v) the aggregate incremental costs associated with increases in National Living Wage and National Minimum Wage;
- "Pro Forma Adjusted EBITDA Including Synergies Margin (excluding the impact of IFRS 16)" represents the Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS 16) divided by pro forma revenue;
- "Pro Forma Adjusted EBITDAR Including Synergies (excluding the impact of IFRS 16)" represents Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS 16) before operating lease rentals for Stonegate Group and Ei Group; and
- "Secured First Lien Adjusted Net Debt" represents the total borrowings under the Notes, the Revolving Facilities Agreement and the Senior Term Facilities Agreement, adjusted to give effect to the Transaction Financing and £50 million of equity contribution by TDR Capital in July 2020, and the application of the proceeds therefrom.

Other Definitions

In addition, unless otherwise indicated or where the context otherwise requires, references to:

- "Agreed Security Principles" are to the agreed security principles as set out in an annex to the Revolving Facilities Agreement, as applied reasonably and in good faith in respect of the Notes by the board of directors or an officer of the Parent;
- "Authority" are to The International Stock Exchange Authority Limited;
- "Be At One" are to Be At One Holdings Limited;
- "Be At One Acquisition" are to the acquisition of Be At One, that owns and operates 33 pubs, which was completed on July 23, 2018;
- "Bidco" are to Stonegate Pub Company Bidco Limited, a wholly owned subsidiary of Holdco incorporated under the laws of England and Wales as a private limited company;
- "Bramwell" are to Bramwell Pub Company Limited and Bramwell Pubs and Bars Limited, from which we acquired 78 pubs on November 15, 2013;

- “Brexit” are to the departure of the United Kingdom from the European Union;
- “Calculation Agent” are to Deutsche Bank AG, London Branch;
- “Clearstream” are to Clearstream Banking S.A.;
- “CMA” are to the UK Competition and Market Authority;
- “COVID-19” are to the infectious disease caused by severe acute respiratory syndrome coronavirus 2 and the global pandemic resulting from it, which is continuing as of the date of this Offering Memorandum, and public health events related to it;
- “Collateral” are to the security interests that secure the obligations of the Issuer and the Guarantors under the Indenture and the Existing Fixed Rate Notes, and that will secure, on or about the Issue Date, the obligations of the Issuer and the Guarantors under the New Notes offered hereby. See “Description of the Notes—Security—The Collateral;”
- “EEA” are to the European Economic Area;
- “Ei” are to Ei Group Limited, a private company under the laws of England and Wales, which was previously registered as a public limited company under the laws of England and Wales, and was reregistered as a private company on March 3, 2020;
- “Ei Corporate Bonds” are to the Ei Secured Corporate Bonds and the Ei Unsecured Corporate Bonds, collectively;
- “Ei Group” are to Ei and its subsidiaries;
- “Ei Group Commercial Properties” are to Ei Group’s free-of-tie pub and non-pub property business segment;
- “Ei Group Managed Pubs” are to Ei Group’s managed pubs business segment which comprises Managed Investments and Managed Operations divisions;
- “Ei Group Publican Partnerships” are to Ei Group’s leased and tenanted pub business segment comprising pubs operated by Ei Group’s publicans as their own businesses;
- “Ei Group Revolving Credit Facility” are to the revolving facilities made available pursuant to the Ei Group Revolving Credit Facility Agreement, which has been repaid in full and cancelled in connection with the Transaction;
- “Ei Group Revolving Credit Facility Agreement” are to the revolving credit facility agreement dated October 24, 2016, as amended and/or amended and restated on March 14, 2017, September 19, 2017 and August 14, 2018, and as may be further amended and/or restated from time to time, and made among, among others, Ei, as company, BNP Paribas, London Branch, Deutsche Bank AG, London Branch, Lloyds Bank plc and The Royal Bank of Scotland PLC as lenders and Lloyds Bank plc as agent and security;
- “Ei Secured Corporate Bonds” are, collectively, to the following bonds that were issued by a member of the Ei Group and that have been redeemed in full in connection with the Transaction: £125,000,000 6.875% Senior Secured Bonds due 2021 issued pursuant to a trust deed dated February 15, 2001; £250,000,000 6.375% Senior Secured Bonds due 2022 issued pursuant to a trust deed dated November 4, 2016, as supplemented and amended on November 9, 2016; £249,521,000 6.00% Senior Secured Bonds due 2023 issued pursuant to a trust deed dated October 7, 2014, as supplemented and amended on October 8, 2014; £125,000,000 6.875% Senior Secured Bonds due 2025 issued pursuant to a trust deed dated May 9, 2000 and £275,000,000 6.375% Senior Secured Bonds due 2031 issued pursuant to a trust deed dated February 26, 2002;
- “Ei Unsecured Corporate Bonds” are to Ei Group’s £150,000,000 7.5% Senior Notes due 2024 issued pursuant to a trust deed dated September 25, 2018, which have been redeemed in full in connection with the Transaction;
- “EU” are to the European Union;
- “Euroclear” are to Euroclear Bank SA/NV;
- “Exchange Act” are to the U.S. Securities Exchange Act of 1934, as amended;
- “Existing Fixed Rate Notes” are to the Issuer’s £500,000,000 aggregate principal amount of 8% senior secured notes due 2025 issued on July 13, 2020 pursuant to the Indenture;

- “Existing Proceeds Loans” are to the loans extended under the Existing Proceeds Loan Agreements;
- “Existing Proceeds Loan Agreements” are to (i) the loan agreement entered into on July 17, 2019, between the Issuer, as lender, and Bidco, as borrower, pursuant to which the Issuer on-lent the gross proceeds of the Senior Bridge Facilities to Bidco and (ii) the loan agreement entered into on July 13, 2020, between the Issuer, as lender, and Bidco, as borrower, pursuant to which the Issuer on-lent the gross proceeds of the Existing Fixed Rate Notes to Bidco;
- “Faucet Inn Sellers” are to Faucet Inn Limited, Kicking Horse 2 Limited and Whitewater 2 Limited, collectively;
- “Fever Bars” are to Bar Fever Limited;
- “Fever Bars Acquisition” are to the acquisition of Fever Bars, that owns and operates 32 pubs, which we completed on January 22, 2019;
- “Floating Rate Notes” are to the €300,000,000 aggregate principal amount of floating rate senior secured notes due 2025 offered hereby;
- “First Novus Acquisitions” are to the acquisition of 15 pubs from A3D2 Limited, in relation to which we entered into an asset purchase agreement dated July 22, 2018, and the last of which we completed on December 10, 2018;
- “Fixed Rate Notes” are to the Existing Fixed Rate Notes and the New Fixed Rate Notes, collectively;
- “Guarantors” are, collectively, to Stonegate Pub Company Limited, Stonegate Pub Company Bidco Holdings Limited, Stonegate Pub Company Bidco Limited, Stonegate Pub Company Financing plc, Bay Restaurant Holdings Limited, Plato Company 3 Limited, Plato Restaurant Holdings Limited, Barley Pub Company Limited, Bay Restaurant Group Limited, Falcon Propco 1 Limited, Hops Pub Company Limited, Intertain Limited, Intertain (Bars) Limited, Intertain (Bars) II Limited, Intertain (Bars) III Limited, Intertain (Bars) IV Limited, Hull Propco Limited, Slug and Lettuce Company Limited, Town and City Pub Group Limited, Be At One Holdings Limited, Be At One Limited, Ei Group, Enterprise Managed Investments Limited and The Craft Union Pub Company Limited;
- “Holdco” are to Stonegate Pub Company Bidco Holdings Limited, a wholly owned subsidiary of the Parent incorporated under the laws of England and Wales as a private limited company;
- “IA86” are to the UK Insolvency Act 1986, as amended;
- “IAS” are to the International Accounting Standards as issued by the International Accounting Standards Board which were replaced in 2001 by IFRS;
- “IFRS” are to the International Financial Reporting Standards as adopted by the European Union;
- “Indenture” are to the indenture governing the terms of the Notes, among, among others, the Issuer, the Parent, the Guarantors and the Trustee dated July 13, 2020;
- “Initial Purchasers” are to Barclays Bank PLC, Goldman Sachs International, Nomura International plc, Deutsche Bank AG, London Branch, Lloyds Bank Corporate Markets plc and Cöoperatieve Rabobank U.A. trading as Rabobank London;
- “Intercreditor Agreement” are to the intercreditor agreement originally dated July 17, 2019, as amended and/or restated on December 19, 2019, March 3, 2020 and July 2, 2020, among, among others, Holdco, Bidco, the Issuer, Barclays Bank PLC, as security agent, the Trustee, as trustee for the Existing Fixed Rate Notes, and to which the Trustee will accede on or about the Issue Date as trustee for the New Notes;
- “Intertain” are to Intertain Limited and its subsidiaries Intertain (Bars) Limited, Intertain (Bars) II Limited, Intertain (Bars) III Limited, and Intertain (Bars) IV Limited;
- “Intertain Acquisition” are to the acquisition of Intertain, which was completed on December 7, 2016;
- “Issue Date” are to the date on which the New Notes offered hereby are issued;
- “Issuer” are to Stonegate Pub Company Financing 2019 plc, a wholly owned subsidiary of Holdco incorporated under the laws of England and Wales as a public limited company;
- “JDW” are to JD Wetherspoon plc;
- “Large Bars” are to Large Bars Limited;

- "Living Room" are to PBR Leisure Limited, from which we acquired 12 pubs on August 15, 2013;
- "Maclay" are to Maclay Inns Limited;
- "Managed Investments" are to one of the two divisions within the Ei Group Managed Pubs segment comprising pubs operated as joint ventures with Ei Group's partners;
- "Managed Operations" are to one of the two divisions within Ei Group Managed Pubs segment comprising pubs operated by Ei Group;
- "Midco" are to Stonegate Pub Company Midco Limited, the direct parent company of the Parent, an exempted company incorporated with limited liability under the laws of the Cayman Islands;
- "Mitchells & Butlers" are to Mitchells & Butlers plc, from which we acquired 333 pubs in November 2010;
- "National Living Wage" are to the minimum pay per hour designated by the UK government for all working people aged 25 and over in the United Kingdom;
- "National Minimum Wage" are to the minimum pay per hour designed by the UK government for all working people from school leaving age in the United Kingdom to 24;
- "New Fixed Rate Notes" are to the £950,000,000 aggregate principal amount of 8.25% senior secured notes due 2025 offered hereby;
- "New Notes" are to the Floating Rate Notes and the New Fixed Rate Notes, collectively;
- "New Proceeds Loans" are to the one or more loans to be extended under the New Proceeds Loan Agreements;
- "New Proceeds Loan Agreements" are to the loan agreements to be entered into on or about the Issue Date between the Issuer, as lender, and Bidco, as borrower, pursuant to which the Issuer will on-lend the proceeds of the Offering to Bidco;
- "Note Guarantees" are to the senior secured guarantees of the Notes by the Guarantors pursuant to the Indenture;
- "Notes" are to the Existing Fixed Rate Notes and the New Notes, collectively;
- "Offering" are to the offering of the New Notes hereby;
- "Parent" or "SPCL" are to Stonegate Pub Company Limited, an exempted company incorporated with limited liability under the laws of the Cayman Islands;
- "Paying Agent" are to Deutsche Bank AG, London Branch;
- "PIKCo" are to Stonegate Pub Company PIKCo Limited, an indirect parent company of the Parent, incorporated under the laws of England and Wales as a private limited company;
- "PIK Facility" are to the PIK facility made available pursuant to the PIK Facility Agreement;
- "PIK Facility Agreement" are to the PIK facility agreement originally dated July 17, 2019, as amended and/or restated on December 23, 2019, February 19, 2020, May 21, 2020 and July 13, 2020, entered into in connection with the financing of the Transaction, among, among others, Stonegate Pub Company PIKCo Holdings Limited, as parent, PIKCo, as borrower, the lenders, the agent and the security agent named therein, as may be further amended and/or amended and restated from time to time;
- "Pubs Code" are to the Small Business Enterprise and Employment Act 2015, and amendments thereto, introduced to regulate the relationship between tied pub tenants and the large pub-owning businesses which rent the pubs to them and sell them tied products, that came into effect on July 21, 2016;
- "Punch Taverns" are to Punch Partnerships (PML) Limited and Punch Partnerships (PTL) Limited, collectively;
- "Purchase Agreement" are to the purchase agreement between the Issuer, the Guarantors and the Initial Purchasers in relation to the sale and purchase of the New Notes offered hereby;
- "Revolving Facilities" are to the revolving facilities made available pursuant to the Revolving Facilities Agreement;

- "Revolving Facilities Agreement" are to the revolving facilities agreement originally dated July 17, 2019, as amended and/or restated on September 11, 2019, December 19, 2019, May 20, 2020 and July 13, 2020, among, among others, Holdco, as initial parent, Bidco, as borrower, Barclays Bank PLC, Goldman Sachs Bank USA, Nomura International plc, Deutsche Bank AG, London Branch, Lloyds Bank plc and Cöoperatieve Rabobank U.A. trading as Rabobank London, as lenders, and Barclays Bank PLC, as facility agent and security agent, as may be further amended and/or amended and restated from time to time;
- "SEC" are to the U.S. Securities and Exchange Commission;
- "Second Lien Facility" are to the second lien term facilities made available pursuant to the Second Lien Facility Agreement;
- "Second Lien Facility Agreement" are to the second lien term facility agreement originally dated October 16, 2019, as amended and/or restated on December 19, 2019, June 5, 2020 and July 13, 2020, entered into in connection with the financing of the Transaction, among, among others, Holdco, as initial parent, Bidco, as borrower, Barclays Bank PLC, Goldman Sachs Bank USA, Nomura International plc, Deutsche Bank AG, London Branch, Lloyds Bank plc, GLQL S.à r.l., PSP Investments Credit Europe L.P., TCG BDC, Inc and TCG BDC II, Inc and Cöoperatieve Rabobank U.A. trading as Rabobank London, as lenders, and Barclays Bank PLC, as facility agent (the "Second Lien Facility Agent") and security agent, as may be further amended and/or amended and restated from time to time;
- "Second Novus Acquisitions" are to the acquisition of six pubs from Balls Brothers (Emporium) Limited and Tank and Paddle Limited, in relation to which we entered into an asset purchase agreement dated January 22, 2019, and the last of which we completed on April 8, 2019;
- "Security Documents" are to the agreements creating security interests over the Collateral as described under "Description of the Notes—Security—The Collateral;
- "Securities Act" are to the U.S. Securities Act of 1933, as amended;
- "Security Agent" are to Barclays Bank PLC, as security agent under the Indenture, the Revolving Facilities Agreement, the Senior Term Facilities Agreement, the Second Lien Facility Agreement and the Intercreditor Agreement;
- "Senior Bridge Facilities" are to the senior bridge facilities made available pursuant to the Senior Bridge Facilities Agreement;
- "Senior Bridge Facilities Agreement" are to the senior bridge facility agreement originally dated July 17, 2019, as amended and/or restated on September 11, 2019, December 19, 2019, February 27, 2020, May 18, 2020 and July 13, 2020, entered into in connection with the financing of the Transaction, among, among others, Holdco, as initial parent, the Issuer, as borrower, Barclays Bank PLC, Goldman Sachs Bank USA, Nomura International plc, Deutsche Bank AG, London Branch, Lloyds Bank plc and Cöoperatieve Rabobank U.A. trading as Rabobank London, as lenders, and Barclays Bank PLC, as facility agent and the security agent, as may be further amended and/or amended and restated from time to time, the borrowings under which we intend to repay in full with the proceeds of the Offering;
- "Senior Term Facilities" are to the senior term facilities made available pursuant to the Senior Term Facilities Agreement;
- "Senior Term Facilities Agreement" are to the senior term facilities agreement originally dated July 17, 2019, as amended and/or restated on September 11, 2019, December 19, 2019, May 20, 2020 and July 13, 2020, entered into in connection with the financing of the Transaction, among, among others, Holdco, as initial parent, Bidco, as borrower, Barclays Bank PLC, Goldman Sachs Bank USA, Nomura International plc, Deutsche Bank AG, London Branch, Lloyds Bank plc and Cöoperatieve Rabobank U.A. trading as Rabobank London, as lenders, and Barclays Bank PLC, as facility agent (the "Senior Term Facilities Agent") and the security agent, as may be further amended and/or amended and restated from time to time, the borrowings under which we intend to prepay in part with the proceeds of the Offering;
- "Sports Bar & Grill" are to Bar Holdings Limited;
- "Stabilizing Manager" are to Barclays Bank PLC;
- "Stonegate Group," "we," "us" and "our" are to the Parent and its subsidiaries which, until March 3, 2020, the date of completion of the Transaction, included the Parent, Holdco and their respective

subsidiaries and, on and from March 3, 2020, includes the Parent, Holdco, Ei and their respective subsidiaries;

- “Stonegate Holdings” are to Stonegate Pub Company Holdings Limited, an indirect parent company of the Parent and an exempted company incorporated with limited liability under the laws of the Cayman Islands;
- “TCG” and “Tattershall Castle Group” are to, collectively, the TCG freehold property sellers and the TCG operating business sellers;
- “TCG freehold property sellers” are to, collectively, TCGT Holdings Limited, TCGI Holdings Limited, TCGB Holdings Limited, TCGP Holdings Limited, Maple I Unit Trust and Maple II Unit Trust that together comprise the sellers of the freehold properties we acquired on September 29, 2015;
- “TCG operating business sellers” are to, collectively, TCG Pubs Limited, TCG Bars Limited, TCG Taverns Limited and TCG Inns Limited that together comprise the sellers of the leasehold properties and other assets we acquired pursuant to the acquisition agreement we entered into with them on September 29, 2015, and the administrators of the TCG operating business sellers;
- “TDR Capital” are to the investment funds managed by TDR Capital LLP that are our indirect majority shareholders, or, when otherwise indicated or where the context otherwise requires, TDR Capital LLP in its own right;
- “Town & City” are to Plato Company 3 Limited and its subsidiaries, which together operated 226 leasehold pubs and which we acquired on June 21, 2011;
- “Transaction” are to the acquisition by Bidco of the entire issued ordinary share capital of Ei by means of a scheme of arrangement effected under part 26 of the UK Companies Act 2006, which we completed on March 3, 2020;
- “Transaction Financing” are to the Offering and the Transaction, and the transactions associated with them, including, the financing of the Transaction, any refinancing of the indebtedness used to finance the Transaction and the use of proceeds of the Offering and the financing of the Transaction, including, the issuance of the Existing Fixed Rate Notes and the use of proceeds therefrom;
- “Trustee” are to Deutsche Trustee Company Limited;
- “UK” are to the United Kingdom;
- “Unique Group” are to Unique Pubs Limited and its subsidiaries;
- “Unique Issuer” are to the Unique Pub Finance Company plc, a financing subsidiary within the Unique Group;
- “UPP” are to Unique Pub Properties Limited, a member of the Unique Group which holds the beneficial title to Unique Group’s pub properties;
- “Unique Securitized Notes” are, collectively, to the following notes outstanding as of the date of this Offering Memorandum issued by the Unique Issuer: Class A4 5.659% Notes due over a period to June 2027; Class M 7.395% Notes due over a period to March 2024 and Class N 6.464% Notes due over a period to March 2032;
- “Unique Securitization” are to the securitization transactions pursuant to which the Unique Issuer has issued the Unique Securitized Notes;
- “United States” “US” and “U.S.” are to the United States of America; and
- “US GAAP” are to accounting principles generally accepted in the United States.

Presentation of Financial and Other Information

IFRS Financial Information

Stonegate Group

In this Offering Memorandum, we have presented Stonegate Group's audited consolidated financial information as of and for the 52 weeks ended September 24, 2017, the 53 weeks ended September 30, 2018 and the 52 weeks ended September 29, 2019, which we have derived from the directors' reports and financial statements for these periods prepared by Stonegate Group. We have included Stonegate Group's audited consolidated financial statements for these periods elsewhere in this Offering Memorandum but have not included the accompanying directors' reports in this Offering Memorandum.

In this Offering Memorandum, we have also presented Stonegate Group's (i) unaudited condensed consolidated financial information as of and for the 16 weeks ended January 20, 2019 and January 19, 2020, which we have derived from Stonegate Group's non-statutory condensed consolidated interim financial statements as of and for the 16 weeks ended January 19, 2020 and (ii) unaudited condensed consolidated financial information as of and for the 28 weeks ended April 14, 2019 and April 12, 2020, which we have derived from Stonegate Group's non-statutory condensed consolidated interim financial statements as of and for the 28 weeks ended April 12, 2020, which are included elsewhere in this Offering Memorandum. Stonegate Group's historical consolidated financial information mentioned above are presented in accordance with the recognition and measurement requirements of IFRS as adopted by the European Union.

Stonegate Group's consolidated financial statements as of and for the 52 weeks ended September 24, 2017, the 53 weeks ended September 30, 2018 and the 52 weeks ended September 29, 2019, which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated balance sheet and the consolidated cash flow statements and the related notes, were audited by KPMG LLP, Stonegate Group's independent auditors and KPMG LLP's audit opinions for these periods are included elsewhere in this Offering Memorandum.

In this Offering Memorandum, we have not included separate financial information for the Issuer. The Issuer was incorporated under the laws of England and Wales on July 9, 2019, as a wholly-owned finance subsidiary of Holdco and an indirect subsidiary of the Parent, to facilitate the offering of debt securities. The Issuer has no business operations or material assets, other than its rights under the Existing Proceeds Loans pursuant to the Existing Proceeds Loan Agreements and, following the issuance of the New Notes and the use of proceeds thereof, will have no business operations or material assets, other than its rights under the New Proceeds Loans pursuant to the New Proceeds Loan Agreements.

Stonegate Group's financial year accounting periods run from the calendar day following the previous financial year end, which, for the years 2017, 2018 and 2019 were September 26, 2016, September 25, 2017 and October 1, 2018, respectively, to the Sunday nearest to its accounting reference date. Accordingly, from time to time, Stonegate Group's financial year accounting period covers a 53-week period instead of a 52-week period. For instance, Stonegate Group's financial year accounting period for 2018 was 53 weeks, whereas for 2017 and 2019, it was 52 weeks. Consequently, the results for the 53 weeks ended September 30, 2018 were positively impacted by an additional week's trading relative to the 52 weeks ended September 24, 2017 and the 52 weeks ended September 29, 2019, which impacts the comparability of results over these periods. In addition, the results of operations for prior years or interim periods may not be necessarily indicative of the results to be expected for the full-year or any future period.

Stonegate Group's historical consolidated financial information includes the financial information of Ei Group from and including March 3, 2020, the date on which the Transaction was completed. For the financial periods preceding March 3, 2020, Stonegate Group's historical consolidated financial information does not include the financial information of Ei Group. Accordingly, Stonegate Group's historical consolidated financial information as of and for the 28 weeks ended April 12, 2020 may not be comparable to Stonegate Group's historical consolidated financial information as of and for the 28 weeks ended April 14, 2019.

IFRS 16 (Leases) became effective on January 1, 2019 and applies to the first full financial year commencing on or after that date. Stonegate Group's first full financial year following the effective date of IFRS 16 began September 30, 2019. Accordingly, Stonegate Group has applied IFRS 16 for the financial periods beginning September 30, 2019. Stonegate Group has adopted IFRS 16 under the modified retrospective approach. Under this approach, comparative information for previous years is not restated and, as a result, no IFRS 16 adjustments have been made to its financial statement for the periods prior to the 16 weeks ended January 19, 2020. However, certain financial information as of and for the 16 weeks ended January 19, 2020, the 28 weeks ended April 12, 2020 and the 52 weeks ended January 19, 2020 is presented in this Offering Memorandum on an adjusted basis, excluding the impact of IFRS 16, to provide a meaningful basis for comparing its financial statements with prior periods. See "Summary—Stonegate Group's Summary Historical and Pro Forma Financial and Other Information" and "Stonegate Group Management's Discussion and Analysis of Financial Condition and Results of Operation—Factors Affecting the Comparability of our Results of Operations—Changes in Accounting Policy."

In this Offering Memorandum we have also presented certain unaudited revenue information relating to Stonegate Group's branded and unbranded groups of pubs and current formats for the 52 weeks ended September 24, 2017, the 53 weeks ended September 30, 2018 and 52 weeks ended September 29, 2019, as well as for the 16 weeks ended January 19, 2020 and the 28 weeks ended April 12, 2020, which we refer to as Stonegate Group Branded Revenue and Stonegate Group Unbranded Revenue in this Offering Memorandum.

In addition, in this Offering Memorandum we have presented certain unaudited income statement information, as well as certain other financial and operating information of Stonegate Group, for the 52 weeks ended January 19, 2020. This information was derived by adding the relevant item for the 52 weeks ended September 29, 2019 and for the 16 weeks ended January 19, 2020, and subtracting the relevant item for the 16 weeks ended January 20, 2019. This information for the 52 weeks ended January 19, 2020 has been prepared solely for the purpose of this Offering Memorandum, is not prepared in the ordinary course of our financial reporting and has not been audited or reviewed by our auditors.

Segment Reporting

Following the completion of the Transaction and beginning the 28 weeks ended April 12, 2020, we have introduced three reportable segments. These are as follows:

- Publican Partnerships, covering rental income and revenue from supply of drinks and gaming machines from our Publican Partnerships;
- Commercial Properties, covering rental income from our Commercial Properties; and
- Managed, covering revenue from the sale of food, drink, accommodation and gaming machine income from our Managed Pubs and Managed Investments.

Note 2 of our financial statements as of and for the 28 weeks ended April 12, 2020 included elsewhere in this Offering Memorandum presents revenue, underlying EBITDA and certain other metrics by reporting segment. We eliminate intersegment revenues and costs upon consolidation and the segmental note is presented net of these eliminations.

All of our revenue is generated in the United Kingdom and is not further segmented based on location. Therefore, no geographical segmental analysis has been provided.

Ei Group

We have presented in this Offering Memorandum audited consolidated financial information for Ei Group as of and for the years ended September 30, 2017, 2018 and 2019, which we have derived from its audited consolidated financial statements for those periods that have been prepared in accordance with the recognition and measurement requirements of IFRS as adopted by the European Union and are included elsewhere in this Offering Memorandum. We have also presented in this Offering Memorandum, unaudited condensed consolidated financial information for Ei Group as of and for the 13 weeks ended December 29, 2018 and December 28, 2019, which we have derived from its condensed consolidated interim financial statements as of and for the 13 weeks ended December 28, 2019 that have been prepared in accordance with the recognition and measurement requirements of IFRS as adopted by the European Union and are included elsewhere in this Offering Memorandum.

Ei Group's consolidated financial statements as of and for the years ended September 30, 2017, 2018 and 2019, were audited by Ernst & Young LLP, its independent auditors and Ernst & Young LLP's audit opinions for these periods are included elsewhere in this Offering Memorandum.

IFRS 16 (Leases) became effective on January 1, 2019 and applies to the first full financial year commencing on or after that date. Ei Group's first full financial year following the effective date of IFRS 16 began October 1, 2019. Accordingly, Ei Group has applied IFRS 16 for financial periods beginning October 1, 2019. Ei Group has adopted IFRS 16 under the modified retrospective approach. Under this approach, comparative information for previous years is not restated and, as a result, no

IFRS 16 adjustments have been made to its financial statement for the periods prior to the 13 weeks ended December 28, 2019. However, certain of its financial information as of and for the 13 weeks ended December 28, 2019 and the 52 weeks ended December 28, 2019 is presented in this Offering Memorandum on an adjusted basis, excluding the impact of IFRS 16, to provide a meaningful basis for comparing its financial statements with prior periods. See "Summary—Ei Group's Summary Historical Financial and Other Information" and "Ei Group Management's Discussion and Analysis of Financial Condition and Results of Operation—Factors Affecting the Comparability of Ei Group's Results of Operations—Changes in Accounting Policy."

In addition, we have presented in this Offering Memorandum certain unaudited condensed consolidated income statement information, as well as certain other financial and operating information of Ei Group, for the 52 weeks ended December 28, 2019. This information was derived by adding the relevant item for the year ended September 30, 2019 and for the 13 weeks ended December 28, 2019 (excluding the impact of IFRS 16), and subtracting the relevant item for the 13 weeks ended December 29, 2018. This information for the 52 weeks ended December 28, 2019 has been prepared solely for the purpose of this Offering Memorandum, is not prepared in the ordinary course of Ei Group's financial reporting and has not been audited or reviewed by its auditors.

We have also presented in this Offering Memorandum certain select financial information of Ei Group for the period between December 29, 2019 to March 2, 2020, representing the period commencing after the end of its first trading quarter of 2020 and ending on the date prior to the date of the completion of the Transaction, after which its results were consolidated with Stonegate Group's results.

Comparability of Stonegate Group's and Ei Group's interim financial results for the first quarter of the financial year 2020 included in this Offering Memorandum is impacted by the varying lengths of their respective trading quarters. Stonegate Group's first trading quarter for the financial year 2020 is made up of 16 weeks. Ei Group's first trading quarter for the financial year 2020 is made up of 13 weeks. For this reason, Stonegate Group's results for the first quarter of financial year 2020, which reflects an additional three weeks of trading results, may not be directly comparable to Ei Group's results for the first quarter of the financial year 2020.

General

The preparation of financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. Aspects involving a higher degree of judgement or complexity, or where the assumptions and estimates are significant to the consolidated financial information, are disclosed, to the extent applicable, in the notes to the financial statements included elsewhere in this Offering Memorandum. See also "Stonegate Group Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Ei Group Management's Discussion and Analysis of Financial Condition and Results of Operations."

We have not included financial information prepared in accordance with US GAAP in this Offering Memorandum. IFRS differs in certain significant respects from US GAAP. In making an investment decision, you should rely upon your own examination of the terms of this Offering and the financial information contained in this Offering Memorandum. You should consult your own professional advisors for an understanding of the differences between IFRS and US GAAP, and how those differences could affect the financial information contained in this Offering Memorandum.

References in this Offering Memorandum to "pound," "pound sterling," "UK pound" or "£" are to the lawful currency of the United Kingdom. References in this Offering Memorandum to "euro" or "€" are to the single currency of the participating member states of the EU participating in the third stage of economic and monetary union pursuant to the Treaty on the Functioning of the EU, as amended or supplemented from time to time. The financial information and financial statements included in this Offering Memorandum are presented in pound sterling. Certain numerical figures included in this Offering Memorandum have been rounded. Discrepancies in tables between totals and the sums of the amounts listed may occur due to such rounding.

Non-IFRS Financial Information

In addition to IFRS financial information, we have presented in this Offering Memorandum certain non-IFRS measures that we use to evaluate our operating and financial performance. See "Certain Definitions—Key Performance Indicators (KPIs) and Other Non-IFRS Metrics," "Stonegate Group's Summary Historical and Pro Forma Financial and Other Information" and "Ei Group's Summary Historical and Other Financial Information."

Stonegate Group

For Stonegate Group, these non-IFRS measures include, among others, Stonegate Group Pre-adjusted EBITDA, Stonegate Group Adjusted EBITDA, Stonegate Group Adjusted EBITDA Margin, Stonegate Group Adjusted EBITDAR, Stonegate Group Cash Conversion, Stonegate Group Drink Sales Growth (Like for Like), Stonegate Group Food Sales Growth (Like for Like), Stonegate Group Revenue Growth (Like for Like), Stonegate Group Pub Profit Growth (Like for Like), Stonegate Group Gross Margin Growth (Like for Like), Stonegate Group Gross Margin for Drinks (Ongoing), Stonegate Group Gross Margin for Food (Ongoing), Stonegate Group Total Gross Margin (Ongoing) and Stonegate Group Return on Investment.

Stonegate Group Adjusted Revenue Growth (Like for Like), Stonegate Group Drink Sales Growth (Like for Like), Stonegate Group Food Sales Growth (Like for Like), Stonegate Group Revenue Growth (Like for Like), Stonegate Group Pub Profit Growth (Like for Like) and Stonegate Group Gross Margin Growth (Like for Like) measures reflect like for like sales, Stonegate Group Pre-adjusted EBITDA and Stonegate Group Total Gross Margin (Ongoing), as applicable, for each period are presented only for those pubs that were open and operated by us in one of our branded or unbranded groups during the period presented and the previous comparable period. Accordingly, not every pub that is trading during a period for which we present one of these measures is included in the result presented for that period. For example, for the 52 weeks ended January 19, 2020, 97 of our pubs were not included in the calculation of these measures.

Stonegate Group's like-for-like metrics presented in this Offering Memorandum for the 28 weeks ended April 12, 2020, include only Stonegate Group's results and do not include the results of Ei and its subsidiaries for the period from March 3, 2020 to April 12, 2020. Accordingly, these metrics for the 28 weeks ended April 12, 2020 reflect the like-for-like performance of Stonegate Group's managed pubs only.

Where we present the Stonegate Group Return on Investment in this Offering Memorandum, we have not included in the calculation the results of pubs that have traded for fewer than 52 weeks post investment. For example, for the 156 weeks ended April 12, 2020, 116 pubs that we have invested in have not been included in the calculation of the Stonegate Group Return on Investment because those pubs have not traded for the 52 weeks post investment. Had we included the results of our pubs which have been invested in but have not yet traded for the 52 weeks post investment, the Stonegate Group Return on Investment that we have presented for each period shown in this Offering Memorandum would likely have been higher.

Ei Group

For Ei Group, these non-IFRS measures include, among others, Ei Group EBITDA, Ei Group Underlying EBITDA, Ei Group Underlying EBITDA Margin, Ei Group Cash Conversion, Ei Group Like for Like Publican Partnerships Net Income Growth, Ei Group Managed Pubs Like for Like Sales Growth, Ei Group Like for Like Commercial Properties Net Income Growth, Ei Group Publican Partnership Pubs Site EBITDA, Ei Group Commercial Properties Site EBITDA, Ei Group Return on Investment, Ei Group Publican Partnerships Return on Investment, Ei Group Managed Operations Return on Investment, Ei Group Managed Investments Return on Investment, Unique Group EBITDA, Unique Group Underlying EBITDA, Unique Group Adjusted Net Debt, Ei Group Property Asset Value and Unique Group Property Asset Value.

We have also presented in this Offering Memorandum Unique Group EBITDA and Unique Group Underlying EBITDA for the year ended September 30, 2019, the 16 weeks ended December 29, 2018 and December 28, 2019, the 52 weeks ended December 28, 2019 and the 26 weeks ended March 30, 2019 and March 28, 2020, which have been derived from UPP's standalone financial statements. Unique Group EBITDA and Unique Group Underlying EBITDA for the 52 weeks ended December 28, 2019 are derived by adding the relevant item for the year ended September 30, 2019 and for the 13 weeks ended December 28, 2019, and subtracting the relevant item for the 13 weeks ended December 29, 2018.

The non-IFRS measures presented in this Offering Memorandum for Ei Group may not be directly comparable to similar measures presented for Stonegate Group as they may have been prepared on differing bases. Additionally, the non-IFRS financial measures, as defined by Stonegate Group or Ei Group, may not be comparable to similarly titled measures presented by other companies due to differences in the way non-IFRS financial measures are calculated by different companies.

Combined Group

For the combined group, pro forma and other non-IFRS measures include, among others, Combined Group Adjusted EBITDA (excluding the impact of IFRS 16), Pro Forma Adjusted EBITDA (excluding the impact of IFRS 16), Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS 16), Pro Forma Adjusted EBITDA Including Synergies Margin (excluding the impact of IFRS 16), Pro Forma Adjusted EBITDAR Including Synergies (excluding the impact of IFRS 16), Adjusted Net Debt, Secured First Lien Adjusted Net Debt, Adjusted Cash Interest Expense and various leverage coverage and loan to value ratios.

General

The non-IFRS measures presented in this Offering Memorandum have been prepared for information purposes only and have not been prepared in accordance with IFRS, US GAAP or any other internationally accepted accounting principles or audited or reviewed in accordance with any applicable auditing standards. These measures are not identified as accounting measures under IFRS and therefore should not be considered as alternative measures to evaluate our performance or Ei Group's performance.

We have presented the non-IFRS financial measures (i) as they are used by Stonegate Group or by Ei Group to monitor and report to the board on financial position and (ii) to present similar measures that are widely used by certain investors, securities analysts and other interested parties as supplemental measures of financial position, financial performance and liquidity. We believe these measures enhance the investor's understanding of our indebtedness and our ability to fund our ongoing operations, make capital expenditures and meet and service our obligations.

We have presented non-IFRS financial information in this Offering Memorandum because our management believes they are useful as additional tools to measure our operating performance, the profitability of our operations, financial information and cash flow, and because we believe that these figures are commonly reported and widely used by investors. The non-IFRS financial information contained in this Offering Memorandum is not intended to comply with the reporting requirements of the SEC and will not be subject to review by the SEC. Non-IFRS financial measures have important limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our position or results as reported under IFRS.

Pro Forma Combined Financial Information

We have presented in this Offering Memorandum the unaudited pro forma condensed combined income statement information of Stonegate Group for the 28 weeks ended April 12, 2020 and the 52 weeks ended September 29, 2019 (together, the "Unaudited Pro Forma Condensed Combined Financial Information").

The Unaudited Pro Forma Condensed Combined Financial Information is intended to give pro forma effect to the Transaction as though it had occurred on September 30, 2019, in the case of the unaudited pro forma condensed combined income statement information for the 28 weeks ended April 12, 2020, and as though it had occurred on October 1, 2018, in the case of the unaudited pro forma condensed combined income statement information for the 52 weeks ended September 29, 2019. The Unaudited Pro Forma Condensed Combined Financial Information does not give pro forma effect to any other acquisitions completed by Stonegate Group during the 28 weeks ended April 12, 2020 and the 52 weeks ended September 29, 2019.

The unaudited pro forma adjustments to the Unaudited Pro Forma Condensed Combined Financial Information is based upon available information and assumptions which we believe are reasonable in the circumstances. We describe the assumptions underlying the pro forma adjustments in the notes accompanying the applicable statements under "Unaudited Pro Forma Condensed Combined Financial Information." Pro forma adjustments reflect only those adjustments which are factually determinable and do not include the impact of contingencies which will not be known until resolution of any such contingency. The Unaudited Pro Forma Condensed Combined Financial Information should not be considered indicative of actual results that would have been achieved had the Transaction been consummated on the date or for the periods indicated and do not purport to indicate results of operations as of any future date or for any future period. The Unaudited Pro Forma Condensed Combined Financial Information has been prepared for illustrative purposes only. Because of its nature, the Unaudited Pro Forma Condensed Combined Financial Information addresses a hypothetical situation and, therefore, does not represent our actual financial position or results of operation.

The Unaudited Pro Forma Condensed Combined Financial Information has not been prepared in accordance with the requirements of Regulation S-X of the Securities Act, the Prospectus Regulation or any generally accepted accounting standards.

The Unaudited Pro Forma Condensed Combined Financial Information should be read in conjunction with "Stonegate Group's Selected Historical Consolidated Financial Information," "Ei Group's Selected Historical Consolidated Financial Information," "Stonegate Group Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Ei Group Management's Discussion and Analysis of Financial Condition and Results of Operations."

Valuation

Stonegate Group Valuation

Davis Coffer Lyons ("DCL") has prepared a desktop valuation report dated November 25, 2019 in respect of our portfolio of 761 freehold and leasehold properties as of September 29, 2019 (the "Stonegate Group Valuation Report"), in accordance with the IVS International Valuation Standards published in January 2017 and the Royal Institution of Chartered Surveyors Global Standards 2017 (the "RICS Standards"). As of September 29, 2019, our property portfolio consisted of 763 sites, and we subsequently disposed of two sites. The Stonegate Group Valuation Report excluded these two sites and valued 761 sites as of September 29, 2019.

DCL has prepared its valuation on the basis of "Market Value," which is defined by the RICS Standards as: "The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion." The valuation presented in the Stonegate Group Valuation Report is the aggregate of the Market Value of each individual property as a fully equipped operational entity on a fair maintainable trade basis and does not represent a valuation of the business as a whole or the value of the various brands associated with our operations.

Based on the RICS Standards, the valuation of a property valued as an operational entity includes the legal interest in the land and buildings; the trade inventory, usually comprising all trade fixtures, fittings, furnishings and equipment; and the market's perception of the trading potential, together with an assumed ability to obtain or renew existing licenses, consents, certificates and permits. In valuing each individual property, consumables and stock in trade are excluded. In preparing the Stonegate Group Valuation Report, DCL has primarily adopted a profits approach to valuation, which involves a consideration of the trading performance of the business on a fair maintainable trade and operating profit basis assuming a reasonably efficient operator. The Stonegate Group Valuation Report notes that no adjustment has been made to the valuation figure for any expenses of realization in the event of a sale, or to reflect the balance of any outstanding mortgages, either in respect of capital or interest accrued thereon. Nor are costs of acquisition included in the Stonegate Group Valuation Report. Further, in preparing the valuation, no allowances were made for any liability which may arise for payment of corporation tax or capital gains tax, or any other property or business-related related tax, whether existing or which may arise on development or disposal, deemed or otherwise.

DCL has carried out their desktop valuation based upon information supplied by us, which they have assumed to be correct and comprehensive. In particular, DCL:

- has not measured the properties but has relied upon the floor areas provided by us;
- has only undertaken inspections of approximately 10% of the total portfolio of properties covered in the Stonegate Group Valuation Report;
- has not carried out any investigations into the past or present uses of the properties, nor of any neighboring land, in order to establish whether there is any potential for contamination and have therefore assumed that none exists;
- has not undertaken structural surveys and has not inspected any part of the properties that are covered, unexposed or inaccessible, or tested any of the electrical, heating, drainage or other services, and no assurance is given that the properties are free from defect;
- has assumed that all properties are free from all deleterious materials;
- has assumed that all properties are occupied and that they trade in accordance with the required building, planning and building regulation requirements and has not undertaken planning enquiries; and

- except as advised by us, has assumed that the leases granted in respect of the properties have the benefit of security of tenure.

Ei Group Valuations

Valuations of Ei Group's estate are carried out on an annual basis as of the end date of each financial year. With the exception of properties identified for disposal and transferred to non-current assets held for sale, Ei Group's properties were revalued as of September 30, 2019 by Avison Young/GVA Grimley Limited ("Avison Young"), in respect of properties that secure the Ei Corporate Bonds and by Colliers International Property Advisers UK LLP, Independent Chartered Surveyors ("Colliers"), in respect of the properties of Unique Group, together constituting in aggregate 95% of the property portfolio. The remaining property portfolio of Ei Group was valued by Ei Group's internal Estates Director. All valuations of assets have been assessed as being level 3 valuations (i.e. for assets whose fair value cannot be determined by using observable inputs or measures) as there are not directly comparable market observable inputs.

Property assets recognized as licensed land and buildings in property, plant and equipment were valued using fair maintainable trade income (FMT) capitalized at an appropriate rate of return (as defined within RICS Standards) or an equivalent multiple. This method of valuation involves making an assessment of the fair maintainable rent, wholesale and machine income that can be generated from the property assuming they are run by a reasonably efficient operator, taking into account future trading potential. This assessment of profit is then capitalized at an appropriate multiple to reflect the risks and rewards of the property. In determining the multiple to use, the valuers consider evidence of comparable market transactions. The resulting fair value of the pub represents the land and buildings. The valuation of the managed pub assets is prepared using a consistent approach that effectively capitalizes the net income attributable to Ei Group from operating the pub at an appropriate multiple. Property assets held in investment property include free-of-tie pubs let to tenants at open market rents and non-pub assets, which are predominantly let as convenience stores. These assets have been valued adopting the investment method of valuation. By reference to the rents, fixed lease terms and market conditions, an appropriate multiple based on comparable market transactions is applied, discounting future rental receipts back to present value.

All classes of asset are, under IFRS 13, required to be valued at highest and best use. Under IFRS 13, Ei Group's current use is presumed to be its highest and best value, unless market or other factors suggest that a different use by market participants would maximize the value of the asset. In conducting their valuations, the valuers consider whether the asset may have a higher or better feasible use which would be reflected in the fair value where applicable. This is applicable on an asset by asset basis if there are circumstances to indicate that there may be a higher and better use. In the current year the highest and best use of all the property assets in property, plant and equipment and investment property has been assessed as their existing use. See "Risk Factors—Risks Related to Our Business—We cannot assure you that the projections or assumptions used, estimates made or procedures followed in the Valuation Reports in respect of Stonegate Group's and Ei Group's property portfolio are correct, accurate or complete."

For additional information regarding the valuations of Ei Group's assets, see Notes 17 and 18 to the financial statements for the years ended September 30, 2017 and September 30, 2018, and Notes 16 and 17 to the financial statements for the year ended September 30, 2019.

Avison Young has prepared valuation reports dated October 24, 2019 in respect of Ei Group's properties that secure the Ei Corporate Bonds and Colliers has prepared a valuation report dated November 8, 2019 in respect of Unique Group's properties (collectively, the "Ei Group Valuation Reports" and, together with the Stonegate Group Valuation Reports, the "Valuation Reports"), in each case, in respect of the applicable property portfolio as of September 30, 2019 and in accordance with the RICS Standards. Avison Young has carried out an on-site review of 356 out of 1,771 properties covered by it in its report, with the remaining properties valued on the basis of a desktop review. Similarly, Colliers has carried out an on-site review of 375 out of 1,860 properties covered by it in its report, with the remaining properties valued on the basis of a desktop review.

Ei Group Valuation Reports have been prepared in accordance with the definition of "Market Value" consistent with the RICS Standards (as described above) and on the basis of individual valuation of the properties, having reference to the occupational agreements, which are, or could be, put in place. The Ei Group Valuation Reports note that most of the occupational agreements for the relevant properties include a tie arrangement for the supply of beers and other drinks, and make an assumption that a potential buyer of the properties is able to leverage the tie and negotiate commercial terms with brewers and other suppliers which are at least equal to those enjoyed by Ei Group. For the Ei Group Managed Pubs segment, the Ei Group Valuation Reports disregard any internal or intercompany leases which may currently exist. For those properties which are currently vacant, closed or let on temporary agreements, the Ei Group Valuation Reports assume that the properties will be let on substantive tied occupational agreements which, so far as is possible, are not at risk of losing the tie pursuant to exercise of market rent only ("MRO") options.

Ei Group Valuation Reports assume that Ei Group has supplied all information that has a material effect upon the value of the relevant properties and that this information is accurate and can, if necessary, be verified. In particular, as described in the Ei Group Valuation Reports, Avison Young and/or Colliers:

- have assumed that the buildings are capable of being insured by reputable insurers at reasonable market rates;
- have not made any allowance for legal fees or any other costs or expenses which would be incurred on the sale of the property;
- have not undertaken any form of technical, building or deleterious material survey and have not reviewed, or given warranties as to, the condition of the structure, foundations, soil and services;
- have not provided a formal environmental assessment and have not carried out any soil, geological or other tests or surveys in order to ascertain the site conditions or other environmental conditions of the property;
- have disregarded the value of all process related plant, machinery, fixtures and fittings and those items which are in the nature of occupiers' trade fittings and equipment; and
- have assumed that the property is constructed, used and occupied in full compliance with the relevant planning and building regulation approvals and that there are no outstanding notices, conditions, breaches, contraventions, non-compliance, appeals, challenges or judicial review.

The Valuation Reports are based on a desktop valuation of Stonegate Group's and Ei Group's relevant portfolio of freehold and leasehold properties. As a result of the restricted due diligence and lack of property inspections, each of DCL, Avison Young and Colliers has made certain assumptions in order to value the relevant properties. If a valuation with the benefit of full inspections took place, then the assumptions adopted may have been different and, as a result, the reported valuation could be materially different to those reported in the relevant Valuation Reports. For this reason, you should not, and are not entitled to, rely upon the valuation taken from the Valuation Reports and reported in this Offering Memorandum for the purposes of making, or refraining from making, any investment decision. After the issuance of the New Notes, neither third parties nor we will provide the holders of Notes with revised valuations and we expressly disclaim any duty to update such valuation under any circumstances. See "Risk Factors—Risks Related to Our Business—We cannot assure you that the projections or assumptions used, estimates made or procedures followed in the Valuation Reports in respect of Stonegate Group's and Ei Group's property portfolio are correct, accurate or complete."

All conclusions presented in the Valuation Reports are based on information available at the time of review. Changes in factors upon which the review was based could affect the results. In particular, the COVID-19 pandemic may have resulted in a decline in our freehold and leasehold property values. We have recognized £24 million of impairment charge for property, plant and equipment during the 28 weeks ended April 12, 2020. Property, plant and equipment are reviewed for impairment if there are any indicators to suggest that the carrying amount may not be recoverable and recoverable amounts are determined based on value-in-use calculations and estimated sale proceeds. However, the Stonegate Group Property Asset Value and Ei Group Property Asset Value presented in this Offering Memorandum have not been adjusted for any potential decline in property values due to the COVID-19 pandemic. See "Risk Factors—Risks Related to our Business—Leasing and ownership of a significant portfolio of real estate exposes us to possible impairments, liabilities and loses." Forecasts are inherently uncertain because of events or combinations of events that cannot reasonably be foreseen, including the actions of government, individuals, third parties and competitors. See "Forward-looking Statements." Data based on the Valuation Reports that is included in this Offering Memorandum involves risks and uncertainties and is subject to change based on a variety of external factors, including those discussed in "Risk Factors."

Exchange Rate Information

The following table sets forth, for the periods indicated, the high, low, average and period end Bloomberg Composite Rate (New York) expressed as U.S. dollars per £1.00 and euro per £1.00. The Bloomberg Composite Rate is a "best market" calculation, in which, at any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications and the ask rate is set to the lowest ask rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate. Neither we nor the Initial Purchasers make any representation that the pound sterling, U.S. dollar or euro amounts referred to in this Offering Memorandum have been, could have been or could, in the future, be converted into U.S. dollars, pound sterling or euro, as the case may be, at any particular rate, if at all.

(expressed as U.S. dollars per £1.00)	Period end	Average(1)	High	Low
Year				
2014	1.5578	1.6476	1.7166	1.5516
2015	1.4736	1.5285	1.5881	1.4632
2016	1.2357	1.3554	1.4880	1.2123
2017	1.3521	1.2889	1.3594	1.2049
2018	1.2760	1.3350	1.4338	1.2489
2019	1.3255	1.2767	1.3339	1.2028
2020 (through July 23, 2020)	1.2741	1.2605	1.3250	1.1485

	Period end	Average(2)	High	Low
Month				
January 2020	1.3204	1.3085	1.3250	1.2989
February 2020	1.2812	1.2953	1.3047	1.2812
March 2020	1.2420	1.2358	1.3124	1.1485
April 2020	1.2594	1.2418	1.2623	1.2331
May 2020	1.2343	1.2296	1.2506	1.2116
June 2020	1.2401	1.2527	1.2747	1.2298
July 2020 (through July 23, 2020)	1.2741	1.2587	1.2741	1.2468

(1) The average of the Bloomberg Composite Rates on the last business day of each month during the relevant period.

(2) The average of the exchange rates on each business day during the relevant period.

On July 23, 2020, the Bloomberg Composite Rate (New York) between the pound sterling and the U.S. dollar was $1.2741 per £1.00.

(expressed as euros per £1.00)	Period end	Average(1)	High	Low
Year				
2014	1.2877	1.2410	1.2877	1.1907
2015	1.3566	1.3774	1.4408	1.2743
2016	1.1734	1.2241	1.3653	1.0969
2017	1.1259	1.1416	1.1968	1.0791
2018	1.1127	1.1304	1.1582	1.1006
2019	1.1823	1.1406	1.1988	1.0740
2020 (through July 23, 2020)	1.0987	1.1396	1.2045	1.0646

	Period end	Average(2)	High	Low
Month				
January 2020	1.1903	1.1782	1.1903	1.1666
February 2020	1.1622	1.1878	1.2045	1.1622
March 2020	1.1031	1.1063	1.1447	1.0691
April 2020	1.0955	1.0872	1.0980	1.0777
May 2020	1.1102	1.0906	1.1102	1.0795
June 2020	1.1039	1.1127	1.1267	1.0940
July 2020 (through July 23, 2020, 2020)	1.0987	1.1068	1.1172	1.0987

(1) The average of the Bloomberg Composite Rates on the last business day of each month during the relevant period.

(2) The average of the exchange rates on each business day during the relevant period.

On July 23, 2020, the Bloomberg Composite Rate (New York) between the euro and the pound sterling was €1.0987 per £1.00.

The above rates may differ from the actual rates used in the preparation of the historical consolidated financial statements and other financial information appearing in this Offering Memorandum.

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SUMMARY

This summary highlights information contained elsewhere in this Offering Memorandum. The summary below does not contain all the information that you should consider before investing in the New Notes. You should read the entire Offering Memorandum carefully, including our historical consolidated financial statements and the notes thereto, before making an investment decision. See "Risk Factors" for certain factors that you should consider before investing in the New Notes.

Overview

On March 3, 2020, we completed the Transaction and Ei Group was combined with Stonegate Group. Following the Transaction, on a combined basis, we are the largest pub company in the United Kingdom based on the number of sites (4,749 sites on a combined basis as of April 12, 2020).

The combined group has strong real estate backing based on an estate of predominantly freehold properties (approximately 81% by number of sites and approximately 88% by value on a combined basis as of September 30, 2019) and a combined property asset value of approximately £4.1 billion as of September 30, 2019 (Stonegate Group: £798 million; Ei Group: £3.3 billion). The combined group is well-distributed through the United Kingdom, with a majority of pubs located at high street locations across London and the southeast region of the United Kingdom, and has diverse operating models, formats and brands.

Revenue of the combined group is generated from a variety of sources, including drink and food sales (87.6% of pro forma revenue for the 52 weeks ended September 29, 2019) and rental income (8.6% of pro forma revenue for the 52 weeks ended September 29, 2019). We believe that our diverse and agile business that delivers across operating models, formats and brands, led by Stonegate Group's experienced and reputed management team, will be instrumental in driving revenue growth in the future. Stonegate Group's revenue, operating profit and loss after taxation on a historical basis for the 52 weeks ended September 29, 2019 were £853 million, £19 million and £24 million, respectively, and Ei Group's revenue, operating profit and loss after taxation on a historical basis for the year ended September 30, 2019 were £724 million, £247 million and £209 million, respectively. On a combined basis, Stonegate Group's and Ei Group's revenue for the 52 weeks ended January 19, 2020 and December 28, 2019, respectively, was £1,598 million. Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS 16) on a combined basis for the 52 weeks ended January 19, 2020 would have been £494 million.

We had strong strategic reasons to combine Stonegate Group and Ei Group. The Transaction adds Ei Group's strong and stable publican partnership business to Stonegate Group's leading managed pub business. It provides a significant pipeline of publican partnership pubs that we can convert into managed pubs where we identify value accretive opportunities. The scale of the combined operations presents numerous opportunities, including opportunities to realize significant cost savings through integrating operating models and applying best practices across Stonegate Group and Ei Group. This combination also gives us the ability to take advantage of value arbitrage opportunities that may not have been fully exploited by Ei Group before.

The global outbreak of a novel strain of coronavirus and the disease it causes ("COVID-19") have had a significant effect on our industry and our business. It resulted in the UK government taking unprecedented steps to implement a national lockdown, restricting social gatherings and mandating closure of non-essential businesses, in each case, leading to business slowdowns and shutdowns. Pursuant to a directive of the UK government, our pubs closed for business on March 20, 2020 as part of national efforts to curb the spread of the disease. Our pubs reopened for business on July 4, 2020, and, as of July 19, 2020, we had reopened 77% of our managed pubs subject to government guidance. Late night formats where dancing is a key part of the offer, pubs aimed at the student demographic and most of our Be At One pubs remain closed during this initial phase of reopening. As of July 19, 2020, we believe that our publicans had reopened an estimated 89% of the pubs in our publican partnership estate. While we have seen certain positive early results based on our first week of trading after reopening, the impact of COVID-19 on our industry and our business remains uncertain and will ultimately depend on a number of factors that are beyond our control and cannot be accurately predicted at this time.

Ei Group

Ei Group began trading operations in 1991 with the acquisition of 368 pubs from Bass plc. Prior to the Transaction, Ei Group was the largest pub company in the United Kingdom based on number of sites with

4,028 sites across England and Wales as of December 28, 2019. The Ei Group Property Asset Value was £3,289 million as of September 30, 2019. Its estate consists of high-quality assets, approximately 95% of which, based on value, were freehold properties and approximately 25% of which were located in town centers as of September 30, 2019. Ei Group's revenue, operating profit and loss after taxation on a historical basis for the year ended September 30, 2019 were £724 million, £247 million and £209 million, respectively. Its revenue for the 52 weeks ended December 28, 2019 was £724 million and the Ei Group Underlying EBITDA (excluding the impact of IFRS 16) for the 52 weeks ended December 28, 2019 was £263 million (adjusted for Ei Group's disposal of 355 commercial properties and 124 assets in the ordinary course in the 52 weeks ended December 28, 2019 described in this Offering Memorandum).

Ei Group operated three main business segments: publican partnerships, managed pubs and commercial properties.

- *Ei Group Publican Partnerships*: Under this segment, Ei Group operated in the leased and tenanted sector through 3,351 pubs, which accounted for approximately 83% of its estate (based on the number of pubs) as of December 28, 2019.
- *Ei Group Managed Pubs*: Under this segment, Ei Group operated two divisions, its Managed Operations division and its Managed Investments division. Its Managed Operations division consisted of 62 pubs as of December 28, 2019 operating under the Bermondsey Pub Company format (covering fully-managed pubs operating nationally with a drink-led retail offering) and 357 pubs as of December 28, 2019 under the Craft Union Pub Company format (covering generally smaller operations run by self-employed operators with a sports, entertainment and drink-led retail offering but no food offering). Its Managed Investments division consisted of 75 pubs as of December 28, 2019, operated as joint ventures with experienced retail partners reflecting a broad mix of operating styles.
- *Ei Group Commercial Properties*: Under this segment, Ei Group had a portfolio of 147 assets as of December 28, 2019, which it operated on a 'free-of-tie' basis. The assets in the Ei Group Commercial Properties segment contributed to the diversification of Ei Group's earnings profile and provided additional recurring rental income. For further information on Ei Group's business model, see "Ei Group's Business."

Stonegate Group

Stonegate Group began its trading operations in November 2010 with the acquisition of 333 pubs from Mitchells & Butlers. Prior to the Transaction, Stonegate Group was the fourth largest managed pub company in the United Kingdom based on number of sites, trading from 760 sites across the United Kingdom as of January 19, 2020. Stonegate Group Property Asset Value was estimated to be £798 million as of September 19, 2019 and its estate included 251 freehold properties as of that date. Stonegate Group's revenue, operating profit and loss after taxation on a historical basis for the 52 weeks ended September 29, 2019 were £853 million, £19 million and £24 million, respectively. Its revenue for the 52 weeks ended January 19, 2020 was £874 million and Stonegate Group Adjusted EBITDA (excluding the impact of IFRS 16) for the 52 weeks ended January 19, 2020 was £141 million.

Stonegate Group's business is highly diversified with a variety of formats. Stonegate Group classifies its pubs as either "branded" or "unbranded", based on each pub's concept and offering. Its branded pubs consist of Be at One, Slug and Lettuce and Venues brands, while its unbranded pubs consist of Proper Pubs, Town Pub and Kitchen, Common Rooms, Classic Inns pubs and City Taverns. By operating its business through a multi-format strategy, Stonegate Group has successfully positioned itself to attract a wide customer demographic while being able to cater to various consumer trends. This diversity in formats and offerings allows it to exist in multiple sites across city and town centers without adversely affecting sales at its pubs in adjacent locations, as opposed to single format operators.

Combined Group

We believe that the Transaction results in a more resilient business for the combined group due to the combined group's diversified operating models comprising publican partnerships, managed pubs and commercial properties, significant asset backing, strong purchasing power based on larger scale, all of which is complemented by Stonegate Group's ability to deliver a market-leading operating performance across the Ei Group's managed estate and publican partnership sites with the potential for conversion to Stonegate Group's managed formats.

The combined group has three main segments:

- *Publican Partnerships*: Publican partnerships form a core operating segment of the combined group, made up of pubs owned or leased by the combined group and operated by publicans as their own businesses. A key feature of the publican partnerships operating model is "tie" arrangements, whereby most publicans have agreed under their lease or tenancy agreements to purchase beer and other beverages through us. We intend to continue to maintain these tie arrangements which, along with rental income, provide resilient and recurring earnings.
- *Managed Pubs*: Managed pubs are largely managed and operated by the combined group and derive their income predominantly from the retail sale of food and drinks, accommodation and gaming machines. The exception being pubs operated under the Craft Union Pub Company format, which are generally smaller operations managed and operated by self-employed operators under our guidelines for managed pub operations, with a sports, entertainment and drink-led retail offering but no food offering. Our managed pubs are strategically positioned to cater to different customer demographics and price points. Stonegate Group's managed estate forms the majority of the combined group's portfolio of managed pubs.
- *Commercial Properties*: Commercial properties consist of free-of-tie pubs and non-pub properties operated and managed by third-party leaseholders. Commercial properties derive their income predominantly from rental payments and contribute to the diversification of earnings by providing another source of recurring rental income. From time to time, we expect to be able to monetize the value created in commercial properties at attractive multiples.

Our Strengths

Our key credit strengths include the following:

Diverse and market-leading business in the UK pub sector

Combining the inherent strengths of Ei Group and Stonegate Group, we expect to create a diverse and market-leading business in the UK pub sector.

Ei Group brings a high-quality and sustainable pub estate. The quality of its estate is evident in its geographic distribution and overall profile. Geographically, its pubs are favorably weighted toward more profitable areas such as those across London, the southeast region of the United Kingdom and other key cities, large towns and affluent postcodes, which we believe provides higher rental income and higher drinks sales based on higher volume. In terms of estate profile, Ei Group has succeeded in rationalizing its underperforming publican partnership pubs by pursuing a strategy of disposing of a number of these pubs, having halved the size of its publican partnership estate in the last ten years (from 6,820 pubs in 2010 to 3,424 pubs in 2019) and, prior to the impact of COVID-19, we estimated that less than 4% of its publican partnership sites produced an average weekly take of less than £4,000. In recent years, based on the operational flexibility provided by its multi-model estate Ei Group has also succeeded in creating a sustainable pub estate by, among other things, reducing the number of its longer-term tied leases and increasing the proportion of its tied businesses operating under shorter-term tenancy agreements of up to five years in length. These attributes of Ei Group's estate also make it well suited for conversions into Stonegate Group's managed pubs format, which is characterized by pubs that are mainly high street and drink-led and weighted toward the southern region of the United Kingdom, and we expect Ei Group's estate of publican partnership pubs to serve as a long-term pipeline for such conversions.

Stonegate Group brings the experience of, and proven model for, running a successful managed pubs business. Its multi-format strategy is aimed at attracting a wide customer demographic while being able to cater to various consumer trends. It has consistently delivered high returns on investment (Stonegate Group Return on Investment of 35.7%, 35.3% and 35.4% for the 156 weeks ended September 29, 2019, September 30, 2018 and September 24, 2017). Its management, who are the architects of its managed business model, have the knowledge, skill set and experience to run not only a successful managed pubs business but also a publican partnerships business, many of them having spent time working in that area.

By combining the strengths of both entities, we expect to deliver a diverse and market leading business in the UK pub sector. The combined group brings diversity in terms of income sources (rental income, wholesale drink sales and retail drink and food sales), locations (distribution throughout the United Kingdom with a weighting in more profitable areas such as London, the southeast region of the United

Kingdom and city and town centers), operating models (leased and tenanted, managed and commercial properties) and formats (branded or unbranded, within the managed pubs segment).

The combined group is the largest pub company in the United Kingdom based on the number of sites. As of April 12, 2020, the combined group had 4,749 sites, compared to 2,864 pubs as of March 31, 2020 for its closest competitor, Greene King plc.

While Ei Group has delivered a significant increase in value since 2015, we believe that combining its estate with Stonegate Group's managed pub business will help unlock the full potential and size of Ei Group's managed pubs business. With the flexibility to apply the format best suited to the demographic trends or customer base of a certain area, we will be able to overlay the appropriate brands and formats across Ei Group's portfolio to maximize the performance of the wider combined estate. Our multiple formats will allow us to maintain a significant presence in growing cities without adversely affecting sales at our pubs in adjacent locations, as opposed to single format operators catering to select target groups.

With diversification and greater scale, we believe that the combined group is better positioned to compete effectively against other market participants, which would benefit all stakeholders, including tenants, employees, customers and local communities.

Strong track record of successfully integrating acquisitions and creating value through cost savings, investments and operational enhancements

We have a strong track record of acquiring and integrating pubs.

We have also succeeded in realizing notable cost savings based on our acquisitions. For example, the acquisitions of Bramwell (2013) and TCG (2015) delivered cost savings of £7 million and £2 million, respectively, on their twelve-month EBITDA at acquisition of approximately £12 million in each case.

In addition to creating value through cost savings, we create value through making investments and operational enhancements in the pubs that we acquire. We have a demonstrable track record of successful capital investments. Since our inception in 2010 and through January 19, 2020, we have refurbished 621 Stonegate Group pubs that we currently operate and have delivered consistently high returns on investment (Stonegate Group Return on Investment of 35.7%, 35.3% and 35.4% for the 156 weeks ended September 29, 2019, September 30, 2018 and September 24, 2017). As of April 12, 2020, we had 124 Stonegate Group pubs in which we have not invested while under TDR Capital's ownership, and we believe that this pipeline, taken together with the sizeable pipeline created by the Transaction, provides strong investment and growth opportunities in the future. We also expect to utilize our knowledge and experience of delivering high returns on investment in relation to acquisitions of under-invested portfolios. For example, in the case of investments we made in the pubs acquired from Bramwell, Maclay and TCG, we delivered returns on investment of 32%, 69% and 50%, respectively.

Significant real estate backing with a majority freehold estate

The combined group has strong real estate backing based on an estate of predominately freehold properties (approximately 81% by number of sites and approximately 88% by value on a combined basis as of September 30, 2019) and a combined property asset value of approximately £4.1 billion as of September 30, 2019.

The Ei Group Property Asset Value was £3,289 million as of September 30, 2019, with its freehold assets accounting for 95% of its total estate based on value. The Ei Group estate is heavily weighted toward the southern region of England, with 52% of the Ei Group Publican Partnerships as of September 30, 2019 located in that region, where property prices are generally higher than the rest of the United Kingdom. Ei Group's estate is largely well maintained. Its capital expenditures on maintenance were £37 million, £32 million and £32 million for the years ended September 30, 2019, 2018 and 2017, respectively. Ei Group has also demonstrated a strong track record of disposals at a significant premium to book value. Over the last ten financial years, Ei Group has disposed of 3,371 sites at an aggregate value of £1,474 million, representing an average premium to book value of 20%. A majority of these disposals were in respect of underperforming assets, indicating the potential for extracting significant value from strategic disposals in the future.

The Stonegate Group Property Asset Value was estimated to be £798 million as of September 29, 2019, covering a managed estate of 760 pubs, comprised of 251 freehold properties. The freehold properties together represented approximately 59% of the Stonegate Group Property Asset Value. Stonegate Group's pubs are also located at attractive geographic locations across the United Kingdom. As of January 19, 2020, 79% of the Stonegate Group sites were located in town or city centers, with the remaining 21% located in suburban areas. Stonegate Group has made substantial investments in its estate. The Stonegate Group Investment Capital Expenditure taken together with the Stonegate Group Maintenance Capital Expenditure was £83 million, £71 million and £82 million for the 52 weeks ended September 29, 2019, the 53 weeks ended September 30, 2018 and the 52 weeks ended September 24, 2017, respectively.

Management has concluded that the COVID-19 pandemic has been a triggering event resulting in management performing an impairment of our property, plant and equipment in the second quarter of 2020. Accordingly, for the 28 weeks ended April 12, 2020, we recorded an impairment charge of £24 million. See "—Recent Developments—Impairment Review."

Favorable cash conversion profile in a steady state of business

Ei Group Cash Conversion was 86.6%, 88.9% and 88.9% for the years ended September 30, 2019, 2018 and 2017, driven by its stable and recurring sources of income and steady increase in EBITDA per pub over time. Ei Group's rental income and its margins from tied drinks sales provide a stable and recurring source of income. The Ei Group Like for Like Publican Partnerships Net Income Growth was 1.2%, 1.2% and 2.3% in the years ended September 30, 2019, 2018 and 2017. Ei Group has also experienced continued growth in its EBITDA per pub since 2013, which has been driven mainly by format conversions, like for like growth across its estate and disposals of its underperforming assets. Ei Group Letting and Maintenance Capital Expenditure also remained broadly consistent over the last three financial years with £37 million, £32 million and £32 million for September 30, 2019, 2018 and 2017, respectively.

Stonegate Group Cash Conversion was 72.8%, 67.2% and 66.5% for the 52 weeks ended September 29, 2019, 53 weeks ended September 30, 2018 and 52 weeks ended September 24, 2017, respectively, driven by its growth over time and favorable returns on investment capital expenditures. The Stonegate Group Maintenance Capital Expenditure has also remained consistent over time (2019: £36 million, 2018: £37 million and 2017: £35 million).

For the combined group, we have estimated that the Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS 16) would have been £494 million for the 52 weeks ended January 19, 2020. We estimate that approximately £80 million of this amount will derive from cost savings that we expect to realize from the combination of Ei Group and Stonegate Group.

Our cash conversion profile has been adversely impacted by the COVID-19 pandemic, primarily due to a significant decline in our EBITDA due to the government-mandated closure of our pubs. In terms of capital expenditure, we currently intend to keep discretionary spending at a minimum, and until our cash reserves recover to desirable levels, we plan to make capital expenditure through a careful and considered approach. For a discussion of our short-term capital expenditure plans, see "Stonegate Group Management's Discussion and Analysis of Financial Condition and Results of Operations—Stonegate Group Capital Expenditure."

Well positioned to outperform in a stable and defensive market

We believe that the combined group's estate is optimally positioned to outperform in terms of market share based on revenue in a stable and defensive UK pub market.

Prior to the COVID-19 pandemic, leading pub and bar operators delivered robust like for like sales growth, as consumers spent on low-priced items in leisure activities and transitioned to premium drinks, which typically provide higher profit margins. Price increases in the on-trade segment, greater range of products and the consumer trend in favor of premium products has resulted in an increase in the pub industry's sales despite a decline in overall volumes. Consumers ordered products that are more expensive and spent more per transaction, as opposed to buying larger amounts of cheaper alcohol. This resulted in an increase in the value of sales in the UK on-trade food and drinks market to an estimated £55 billion in 2019, representing an increase of approximately 38% since 2010. Consumer demand for premium drinks such as craft beer, craft cider, micro-distillery spirits and premium mixers has also been increasing over time, with the best performing drinks categories being premium, while standard categories of drinks performed less favorably. Sales volumes of draught craft beer, gin, draught premium world lager and sparkling wines increased. Collectively, these changes generated higher profit margins for pub operators. If these trends continue once the industry returns to a steady state following the COVID-19 pandemic, we believe that we are well positioned to benefit from these trends for a number of reasons. The diversity of our formats and the range of our products provide us the agility to cater to developing consumer preferences, such as a higher demand for premium products, while also providing natural insulation against changes in consumer preferences. The geographic weighting of our pubs toward more profitable regions of the United Kingdom where revenues per pub are generally higher (e.g., London, the southeast region of the United Kingdom, city and town centers), give us locational advantage in terms of access to more concentrated marketplaces and to consumer demographics that are more likely to spend on premium products. Furthermore, we believe that the UK government's increased focus on ensuring that high streets continue to thrive and receive suitable investments will lead to an increase in footfall at city and town centers, which will also be to our advantage.

The UK pub market has historically been overcrowded. Over the last four decades, a number of unprofitable and smaller leased and tenanted pubs have exited the market. This has led to a long-term decline in the number of pubs and bars in the United Kingdom, with the total UK pub market size contracting from approximately 63,500 pubs in 1990 to approximately 47,600 pubs in 2018, and this trend may continue. While the long term impact of the COVID-19 pandemic on the UK pub market may be difficult to predict, in the short and medium term it may lead to a number of changes in industry trends and practices. For instance, the COVID-19 pandemic may have an adverse impact on sales volumes in pubs located in town or city centers as compared to our pubs located in suburbs. In addition, high streets may offer more real estate opportunities for pubs and bars due to the reduction in retail space and there may be increased demand for stable freehold assets.

We believe that we are well positioned to continue to grow our offering within the UK pub market because of our ability to offer the best format for each specific target market and to exist in multiple sites across city, town centers and suburban sites without adversely affecting sales at our pubs in adjacent locations.

Highly experienced and stable senior management team with strong sponsor backing

The combined group will have a highly experienced and stable senior management team, with an average of over 25 years of relevant experience, combining complementary skill sets in the retail, leisure and service sectors.

The combined group is led by our CEO, Simon Longbottom, who has more than 25 years of experience in the leisure industry. Prior to joining us, Mr. Longbottom was a Managing Director of Pub Partners, the tenanted division of Greene King plc, as well as a Managing Director of Gala Coral's gaming division. He has also held senior positions with Mill House Inns and Mitchell's & Butlers plc. The combined group will also benefit from the strong experience of our Chairman, Ian Payne, MBE, who has more than 40 years of industry experience and helped found Stonegate Group in 2010. Mr. Payne, 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 (which included a large leased and tenanted portfolio), from its inception in May 2001 through to December 2004, and was involved in the sale of Laurel Pub Company to Ei Group. He later became Chairman of Bay Restaurant Group and Town and City Pub Group. In November 2019, he was recognized for his contribution to the sector and received the CGA Peach Industry Icon award.

With the leadership of our strong senior management team, we have grown our revenues from £697 million for the 52 weeks ended September 24, 2017 to £853 million for the 52 weeks ended September 29, 2019 representing an increase of 22.2%. The combined group continues to have strong sponsor backing from TDR Capital, a leading private equity firm, which managed funds of over €10 billion of committed capital as of the end of 2019. On July 17, 2020, TDR Capital contributed equity of £50 million to support our business in light of the challenges presented due to the COVID-19 pandemic. We intend to retain this amount as cash on our balance sheet and to utilize it to finance our business and operational needs as required. We believe that TDR Capital's active support, combined with the depth of our management's industry experience, provides for efficient decision-making and insightful leadership for the combined group.

Our Strategies

As we recover from the impact of the COVID-19 pandemic in the future and approach a steady state of business, we intend to pursue the strategies set out below. For a discussion of the immediate impact of

COVID-19 on our business and the various measures we have taken to protect and manage the business, reduce our cost base and protect our liquidity, see "—Recent Developments—Impact of COVID-19."

Business as usual

- **Ei Group Publican Partnerships**: We plan to continue to operate the publican partnerships business acquired from Ei Group, which represented the core segment of Ei Group's business, in its existing form. Ei Group shaped a stronger and more profitable publican partnership business by strategically disposing of underperforming, smaller and secondary assets over time, having halved the size of its publican partnerships estate in the last ten years (from 6,820 pubs in 2010 to 3,424 pubs in 2019). The Ei Group Like for Like Publican Partnerships Net Income Growth was 1.2%, 1.2% and 2.3% in the years ended September 30, 2019, 2018 and 2017. We intend to continue to invest in the publican partnership portfolio to ensure that our publicans have the infrastructure that they require to provide the best customer experience and to increase site profitability.
- **Stonegate Group Managed Pubs**: Our strategy for Stonegate Group's managed pubs business has consistently yielded positive results and we intend to continue to pursue them to the extent that we can in light of the challenges presented by the COVID-19 pandemic. Our existing strategy includes continued capital investments, responsiveness to industry trends, pricing improvements, labor efficiency and the implementation of operational best practices across the Stonegate Group estate. We have discussed them in more detail below.

The success of our existing strategy is reflected in Stonegate Group's growth over time. Stonegate Group's revenue has increased from £558 million in 2014 to £853 million in 2019, representing an increase of 52.9% during this period.

Continue capital investments

We intend to maintain our commitment to capital investment to continue to improve business performance and to further increase market share. As of April 12, 2020, we had 124 Stonegate Group pubs in which we have not invested while under TDR Capital's ownership, and we believe that this pipeline, taken together with the sizeable pipeline created by the Transaction, provides strong investment and growth opportunities in the future. We also intend to continue to make second-round capital investments where we see opportunities to create additional value.

Due to the impact of the COVID-19 pandemic and our efforts to manage cash outflows and preserve and build liquidity, we currently intend to keep our discretionary spending to a minimum. As a result, until our cash reserves recover to desirable levels, our ability to make capital investment may temporarily be limited. However, we plan to continue making opportunistic capital investment through a careful and considered approach.

Continue to concentrate on our core operating initiatives

We intend to deliver sustainable profit growth through our core operational initiatives:

- *Transition to Premium:* Customer demand for premium drink categories has been growing, particularly demand for premium lager and craft beer. In response to this trend, we have consistently increased our offering of premium, higher-value products (including cocktails) to take advantage of increasing demand for premium categories of drinks products. For the 52 weeks ended January 19, 2020, our revenue mix from premium drinks increased 0.5%, 3.1%, and 0.6% in revenue mix from premium lager, premium spirits and cocktails, respectively, compared to the revenue from these products for the 52 weeks ended January 20, 2019. Our mix of formats and our experience running Be At One, a group of premium specialist cocktail bars that we acquired in 2018, we believe positions us well to continue to benefit from this trend.
- *All-Day Formats:* Consumers are increasingly considering food offerings at pubs when deciding where to drink. In response to this trend, we have been developing and improving our food offering to increase footfall and drink sales across our pubs. This has also helped us to generate revenue during periods in the day when drink sales are relatively lower. For example, food accounted for 33% of pre-5:00 p.m. sales across our pubs for the 52 weeks ended January 19, 2020.
- *Creating Experiences:* We deliver memorable customer experiences. We organize a variety of events centered around music and sports to attract and retain our customers.

- *Digitalization and Technology:* To promote brand awareness and customer retention across our core customer age group of 18 to 35 year olds, we have increased our focus on digital marketing. Our brands (including Be At One) currently have over 3 million Facebook followers in aggregate. We have also developed an app, "We Love Sport", which allows customers to place orders while seated at their tables and to discover where select sport events are being screened. Be At One also recently joined the Uber Eats platform, where customers in the vicinity of select bars can get their cocktails delivered to their homes. As a result of the COVID-19 pandemic, we are implementing a number of technology-focused measures at our pubs, including the use of online menus and online booking and payment applications, as well as encouraging contactless payments. We believe that these technology innovations could help drive utilization in our pubs during peak hours and improve our gross margin.

Continue to focus on improving margins

- *Pricing Improvements:* Our pricing strategy focuses on promoting premium products, ensuring that price increments between products are in line with the quality of those products and that each step-up is evenly distributed. We also focus on price rationalization, to ensure that prices are consistent within sites across the same format, and the centralized approval of all promotions, which is aimed at rationalization of discounts.
- *Labor Efficiency:* Our labor strategy focuses on making staffing practices more efficient, with a view to tailoring our staffing requirements based on consumer demand and customer traffic at various times during the day and year. The proactive management of our staffing requirements have been helpful in partially mitigating the impact of National Living Wage and National Minimum Wage.
- *Adoption of Best Practices*: Our acquisitions have given us an opportunity to gain insight into a variety of best practices of our peers. For example, following the First Novus Acquisitions, we brought on board the target's events team that specialized in developing and implementing pre-booking and group event strategies. We believe that this expertise helped us improve our sales margins through the increase in pre-bookings and group events across our estate. We plan to continue to learn from and, where useful, adopt, the best practices of our peers.

Format conversions supported by investment

We intend to utilize Stonegate Group's ability to deliver market-leading operating performance across Ei Group's managed estate and publican partnerships estate. We also intend to utilize the value creation opportunities provided by the operating model of Ei Group's Craft Union pubs. These strategies are discussed in more detail below. However, in light of the impact of the COVID-19 pandemic, our ability to fully implement these strategies may temporarily be limited.

Conversions from publican partnerships to managed pubs

Consistent with the strategy pursued by Ei Group in the past, we expect to continue to convert a number of publican partnership pubs that we have acquired from Ei Group into managed pubs. Ei Group's publican partnership estate provides a large pipeline for these conversions, with an estimated 82% of its publican partnerships estate, becoming available for conversion within the next five years. We have carried out site visits of the entire Ei Group publican partnerships estate to assess the potential for site conversions, and estimate that approximately 28% of the sites visited are suitable for conversion into managed pubs at profitable levels.

We expect these conversions to result in higher profitability. Above a minimum level of sales, managed pubs typically generate incremental profit on a unit basis when compared to a publican partnership pub by retaining the earnings that would otherwise have been retained by publicans in a publican partnership model. Additionally, through our capital investments program, whereby we estimate we will invest, on average, approximately £350,000 to £400,000 per pub to implement these conversions, we would expect to achieve an estimated return on investment of approximately 35% to 50%.

Expand the Craft Union operating model

Craft Union is one of the divisions that Ei Group operated within its managed pubs segment. These pubs are run by self-employed operators who receive a fixed percentage of the revenue generated at these pubs and are responsible for organizing and paying staff. Its operating model provides the benefits of a managed pub model, in terms of control over investments, formats and operations (e.g., in areas of pricing and marketing), while also providing certain benefits of the publican partnership model, in terms of allocating responsibility to the pub operator for labor, staffing and other costs. These pubs tend to be drink-led with no food offering and have a sports focus. We believe that the Craft Union format is particularly well suited for drink-led pubs with lower revenues.

We believe we can create value by improving the existing Craft Union pubs and also by converting existing publican partnership pubs into the Craft Union format. These conversions should be simple to execute and we should be able to achieve scale with speed. We estimate that we will invest, on average, approximately £125,000 per pub to convert publican partnership pubs into Craft Union pubs, which gives us the opportunity to increase profitability at lower levels of capital investment.

Cost reduction by realizing synergies

We believe that there are significant opportunities for cost savings through integrating operating models and applying best practices across Stonegate Group and Ei Group, and by gaining increased scale through the combined operations. Based on our current estimates, we believe we will be able to achieve approximately £80 million in cost savings resulting from streamlined procurement costs, optimized site operations and expected head office synergies. These cost savings have been estimated relative to costs incurred by Stonegate Group and Ei Group on a combined basis for the financial year 2019. We estimate that we will realize approximately £32 million of these cost savings, which represents approximately 40% of our total expected cost savings, by December 2020. We expect to realize the remaining cost savings by December 2021.

Procurement: Stonegate Group and Ei Group are predominantly drink-led businesses procuring comparable products. As a result of the Transaction, our estate has grown from 760 sites as of January 19, 2020 to 4,749 sites on a combined basis as of April 12, 2020, presenting a significant opportunity for us to utilize the scale of the combined business and renegotiate suppliers' terms to reduce our procurement costs. Ei Group's drinks requirement is more heavily weighted toward beer and cider, with a greater purchase volume in these categories compared to Stonegate Group. For this reason, Ei Group benefits from better pricing terms for beer and cider. We believe that by migrating the rest of the group to Ei Group's pricing structure, we can achieve significant cost savings. Moreover, we believe that transitioning to supply contracts that bundle BCF (i.e., beer, cider and flavored alcoholic beverages) or WSM (i.e., wines, spirits and minerals) or food, we will be able to achieve better pricing terms overall in light of the size of the combined group. Based on our current estimates, we expect to achieve aggregate procurement savings of approximately £43 million. We estimate that we will realize approximately £11 million of these savings by December 2020, and the remaining £32 million by December 2021.

Head office and site operation synergies: We are in the process of carrying out a detailed review to implement the integration of Stonegate Group and Ei Group. Based on the outcome of this review, there may be a controlled reduction in the combined group's headcount. This would include rationalizing certain corporate and support functions at Ei Group's head office where there is duplication with our existing functions or where the function was required to support Ei Group's status as a publicly listed company. The chairman of its board of directors, the non-executive directors, the chief executive officer and the chief financial officer resigned effective March 3, 2020. Based on our management's initial assessment, which is subject to a more detailed review that we expect to complete within six months from the Transaction, the aggregate cost savings from these resignations and the elimination of remuneration payable to senior management and certain other head office employees, will be approximately £7 million. Based on our current estimates, we expect to achieve approximately £37 million of cost savings relating to head office and site operation synergies. We estimate that we will realize approximately £22 million of these savings by December 2020, and the remaining £15 million by December 2021.

We also plan to drive cost savings at the site level by implementing various operational best practices and achieving greater efficiency across the combined group. For example, Stonegate Group's repairs and maintenance system, ProNett, will be implemented across the combined group, enabling better cost management in this category and generally a better approach to managing expenses.

Disposals to realize alternative value and enable our core investment strategy

We will adopt a proactive approach to reshaping our portfolio of assets. In addition to the format conversions discussed above, we will assess each site in the portfolio for its value within the combined group against its alternative value. This will involve assessing sites for their value in alternative commercial or residential use and as a pub in the ownership of another group. Realizing such value in our portfolio will enable the group to redeploy disposal proceeds into the estate and help mitigate the impact of the COVID-19 pandemic on our liquidity position and our ability to invest in the short term.

The Transaction

On March 3, 2020, Bidco completed the Transaction by way of a court-sanctioned scheme of arrangement under Part 26 of the UK Companies Act 2006.

The Transaction valued Ei's entire issued ordinary share capital at £1,265 million. The terms of the Transaction implied an enterprise value of approximately £3,010 million and a multiple of approximately 11.4 times the Ei Group Underlying EBITDA (excluding the impact of IFRS 16) of £263 million for the 52 weeks ended December 28, 2019 (adjusted for 355 commercial properties and 124 assets in the ordinary course disposed of by Ei Group during the 52 weeks ended December 28, 2019).

Following the Transaction, Ei's shares were delisted from the London Stock Exchange and Ei has been re-registered as a private limited company.

As a condition to approval by the UK Competition and Market Authority (the "CMA") of the Transaction, we have undertaken to dispose of 42 sites to third parties, which include 10 sites from the Stonegate Group estate and 32 sites from the Ei Group estate. For the financial year 2019, these sites represented an aggregate pre-adjusted site EBITDA of approximately £4 million. We intend to complete the disposal of these sites by November 2020.

Recent Developments

Current Trading

Our results for the quarter ended July 5, 2020 will be heavily impacted by the COVID-19 pandemic. Our managed pubs were shut for this period and generated no revenue. Our publican partnership and commercial properties segments generated some rental income for this quarter but the majority of our income is volume-driven and will be heavily impacted by the closure of our tenants' pubs and businesses. Offsetting this, we were able to minimize our operating costs at a site and central level, particularly supported by the government's furlough scheme, described below. More detail on the measures taken to mitigate the effects of COVID-19 are set out below.

Publican partnership estate

As of July 19, 2020, we believe that approximately 89% of the pubs in our publican partnership estate had been reopened by our publicans, estimated based on supply orders received. At this early stage, we have limited information to gauge the performance of these pubs and rely on supply orders and limited consumption data to gauge the early trading performance of this estate. Metred data for the sales of barrelled beer, cider and ale for a sample averaging a daily total of 1,053 pubs for the week of July 6, 2020 to July 12, 2020 shows that volumes for this period of trading were at 87% of the volumes for the same group of pubs and for the same period in 2019. Metred data for the sales of barrelled beer, cider and ale for a sample averaging a daily total of 1,130 pubs for the week of July 13, 2020 to July 19, 2020 shows that volumes for this period of trading were at 91% of the volumes for the same group of pubs and for the same period in 2019. We believe this positive early performance is reflective of the quality of the estate and the level of support provided to our publicans by both the UK government and our own publican support measures.

We have seen only a minimal increase in vacant properties where publicans have resigned their tenancy. As of July 19, 2020, only 85 sites within our publican partnership estate were closed and without a tenancy agreement.

Our publican partnership estate benefits from external drinking areas and we estimate that approximately 90% of our publican partnership estate has the use of such areas.

Managed pub estate

On July 4, 2020, we had reopened 886 of our managed pubs. As of July 12, 2020, we had reopened 931 of our managed pubs and, as of July 19, 2020, we had reopened 985 of our managed pubs (representing approximately 77% of our managed pub estate). Of the approximately 291 managed pubs which remain closed as of July 19, 2020, approximately half are late night venues focused on dancing, which we do not think can be responsibly opened in a profitable manner at this early stage. Our remaining closed managed pubs comprise student-focused pubs, sites in areas of high concentration, small sites without practical external drinking areas, certain sites in largely-empty business districts and a handful of pubs where refurbishments are to be completed.

A significant proportion of our managed pub estate benefits from external drinking areas and we estimate that approximately 69% of our managed pub estate (excluding managed investment pubs) has the use of such areas.

We have presented below certain sales information for our managed pubs (excluding our managed investment pubs) that were open and in operation for the week ending July 12, 2020 and the equivalent week in 2019 (a sample of 776 pubs as of July 6, 2020, increasing to 794 managed pubs as of July 12, 2020) and for the week ending July 19, 2020 and the equivalent week in 2019 (a sample of 811 pubs as of July 13, 2020, increasing to 845 managed pubs as of July 19, 2020):

- our total revenue from these pubs was 60% of the comparable prior year period for the week ending July 12, 2020 and 64% of the comparable prior year period for the week ending July 19, 2020 (in each case, based on the total revenue for the same group of pubs and for the same period in 2019);
- our drink revenue from these pubs was 62% of the comparable prior year period for the week ending July 12, 2020 and 65% of the comparable prior year period for the week ending July 19, 2020 (in each case, based on the drink revenue for the same group of pubs and for the same period in 2019);
- our food revenue from these pubs was 53% of the comparable prior year period for the week ending July 12, 2020 and 64% of the comparable prior year period for the week ending July 19, 2020 (in each case, based on the food revenue for the same group of pubs and for the same period in 2019); and
- our gross profit from these pubs was 61% of the comparable prior year period for the week ending July 12, 2020 and 65% of the comparable prior year period for the week ending July 19, 2020 (in each case, based on the gross profit for the same group of pubs and for the same period in 2019).

The preliminary results and operating information presented above have been prepared by, and are the responsibility of, management and are based solely on preliminary internal information. Because these results are preliminary, they could change, and they may not be indicative of the current financial quarter or any other period. See "Forward-looking Statements" and "Risk Factors" for a more complete discussion of certain of the factors that could affect our future performance and results of operations.

This preliminary information has not been audited or reviewed by our independent auditors.

Impact of COVID-19

The global outbreak of COVID-19 has had a significant effect on our industry and our business. It resulted in the UK government taking unprecedented steps to implement a national lockdown, restricting social gatherings and mandating closure of non-essential businesses, in each case, leading to business slowdowns and shutdowns. The spread of COVID-19 has had a material negative impact on our business, resulting in the temporary closure of substantially all of our sites for the period between March 20, 2020, when the UK government ordered the closure of all pubs and restaurants with immediate effect, to July 4, 2020. Our pubs reopened for business on July 4, 2020 and, as of July 19, 2020, we had reopened 77% of our managed pubs and we believe that our publicans had reopened an estimated 89% of the pubs in our publican partnership estate.

At the foundation of the business decisions we made in response to the COVID-19 pandemic was the health, safety, and well-being of our customers, employees and other stakeholders. As such, we have closely followed government advice at each stage.

Discussed below are the immediate impact of COVID-19 on our business and the various measures we have taken to protect and manage our business, reduce our cost base and protect our liquidity.

Impact on Operations

Set out below are the key measures we took in the wake of the UK government mandated closure of our pubs in response to COVID-19:

- closed all pubs in our estate effective March 20, 2020 as part of the UK government's efforts to restrict social contact. All of our assets and premises were successfully secured after receiving the closure order, including all current stock and cash;
- furloughed 96% of our staff, consistent with the approach taken by our industry peers and in compliance with government guidelines such as the Job Retention Scheme (defined below);

- moved the central office team to a work-from-home model where staff continued to support the business where required; and
- paused our investment program across the board and also the conversion of sites acquired as part of the Transaction.

Certain Trading Data

Following a strong performance in the first quarter of 2020, trading during the start of the second quarter of 2020 remained robust and generally in line with expectations for Stonegate Group and Ei Group. Our second quarter performance was impacted by two extraordinary events – storms Ciara and Dennis, the impact of which we experienced in the weeks commencing February 10, 2020 and February 17, 2020, and the COVID-19 pandemic, the impact of which we started experiencing from the week commencing March 9, 2020, with a decline in footfall at our pubs, and which culminated in government-mandated closure of our pubs from March 20, 2020.

We present below our trading performance, based on certain key performance measures that our management track on a regular basis to demonstrate the impact of these extraordinary events during the second quarter of 2020.

	For the 16 weeks ended January 19, 2020	For the adjusted seven weeks ended March 8, 2020(1)	For the seven weeks ended March 8, 2020(2)
Stonegate Group Revenue Growth (Like for Like)	3.3%	2.5%	(0.1)%
Stonegate Group Pub Profit Growth (Like for Like)	13.0%		

(1) Reflects Stonegate Group Revenue Growth (Like for Like) for the seven weeks ended March 8, 2020, adjusted to exclude the two-week period from February 10, 2020 to February 23, 2020, representing Stonegate Group Revenue Growth (Like for Like) for the portion of our second quarter of 2020 not impacted by the COVID-19 pandemic and storms Ciara and Dennis.

(2) Reflects Stonegate Group Revenue Growth (Like for Like) for the seven weeks ended March 8, 2020, representing Stonegate Group Revenue Growth (Like for Like) for the portion of our second quarter of 2020 not impacted by the COVID-19 pandemic.

	For the 13 weeks ended December 28, 2019	For the 10 weeks ended March 7, 2020(1)
Ei Group Like for Like Publican Partnerships Net Income Growth	(1.1)%	(2.0)%

(1) Reflects Ei Group Like for Like Publican Partnerships Net Income Growth for the ten weeks ended March 7, 2020, representing Ei Group Like for Like Publican Partnerships Net Income Growth for the portion of our second quarter of 2020 not impacted by the COVID-19 pandemic.

Government Assistance

In response to COVID-19, HM Treasury in the United Kingdom announced a package of temporary measures to support public services, people and businesses through the period of disruption. These measures included the Coronavirus Job Retention Scheme (the “Job Retention Scheme”), deferred VAT payments, business rate payment holidays and the Retail Hospitality and Leisure Grant Scheme (the “Hospitality Scheme”). We have utilized the following government assistance programs so far:

For our managed pubs,

- the Job Retention Scheme, which provided payroll support for our furloughed employees (80% of salary or wages, up to £2,500 per month) and resulted in approximately £3.1 million of support per week for the period from March 23, 2020 to June 30, 2020;
- VAT deferral scheme, whereby the VAT payable for the period of our pub closures has been deferred until March 2021; and
- the business rates holiday scheme for the 2020 to 2021 tax year, whereby we are exempt from paying business rates for 2020 to 2021 tax year, which we estimate will result in a benefit of approximately £50 million.

For our publican partnership pubs,

- assistance to approximately 3,500 of our publicans by way of a £188 million support package, estimated as of June 2020, consisting of assistance provided under the Hospitality Scheme, covering cash grants for properties within rateable value bands, the Job Retention Scheme, covering payroll support for furloughed employees (80% of salary or wages, up to £2,500 per month), business rates relief, covering business rates holiday scheme for the 2020 to 2021 tax year, self-employed grants, covering grants worth 80% of average monthly trading profits for three months payable to self-employed individuals, and the employment and the support allowance scheme, covering grants payable to individuals under the state pension age and having a disability or adverse health conditions.

Our assistance to publicans

We have extended an overall support package to our publicans in a total amount of £29 million, estimated as of June 2020.

For the months of April, May and June 2020, we provided all our tied publicans operating on substantive agreements that were not in receipt of government grants a three-month rent credit. During this period, we provided trade credits of either 75% or 50% of the value of three months' rent as further support to those of our publicans who were entitled to government grants of between £10,000 and £25,000. In addition, during this period, we cancelled tie release fees and fixtures and fittings rentals regardless of a publican's entitlement to government grants.

For the month of July 2020, we have provided all our tied publicans operating on substantive agreements concessions of 75% on rent, tie release fees and fixtures and fittings. For the month of August 2020, we have provided concessions of 50% on rent, tie release fees and fixtures and fittings.

We intend to continue to evaluate support to our publicans to enable them to restart their business with confidence and ease cash flow.

Cost Control Measures

In response to the closure of our pubs on March 20, 2020, we adopted swift measures to significantly reduce cash outflows by reducing our operating cost and implementing cash control measures, with the aim of maximizing our liquidity position. Specifically, we adopted the following measures:

- put on hold all non-essential and discretionary spend within the business, including any growth, expansionary or investment capital expenditures;
- made furlough arrangements and agreed salary cuts, which resulted in a reduction in our average wage bill of £5.1 million per week to £300,000 per week for the period from March 23, 2020 to June 30, 2020;
- retained only a small number of staff/contractors to perform emergency works on the buildings when required; and
- entered into arrangements with landlords to defer rent payments during the period of closure, which we expect will result in a deferral of £45 million of rent payables until the end of the calendar year; in addition, we have deferred approximately £19 million of rent receivables (excluding receivables within the Unique Group) from our tenants.

These measures resulted in reduced operating costs of approximately £5.5 million per month for the period April 2020 to June 2020, consisting primarily of adjusted payroll costs (net of furlough grants), cost of utilities, caretaker fee paid to the operators of our Craft Union pubs, other essential overhead costs (e.g., pest control costs, rent payments for equipment and costs in relation to maintaining regulatory licenses) and certain costs relating to maintaining our IT systems.

To manage cash outflows and preserve and build liquidity going forward, we may consider using certain strategic options available to us, including:

- reduction in discretionary spend through careful and considered approach to discretionary capital expenditure programs until cash reserves recover to desirable levels;
- access other government assistance programs such as the Coronavirus Business Interruption Loan Scheme (CLBILS) if required; and

- consider asset dispositions in addition to the CMA mandated asset dispositions in connection with the Transaction.

Reopening

We have reopened our pubs in accordance with the guidelines issued by the UK government. These guidelines include measures in relation to increased sanitation and hygiene requirements, limitations on the size of gatherings, keeping a temporary record of customers, social distancing and other mitigating measures to slow the spread of COVID-19. In compliance with these guidelines and to ensure the health, safety and well-being of our customers, employees and other stakeholders, we have implemented a number of measures in relation to the reopening of our pubs, including:

- conducting training of our employees to ensure that our pubs are operated in compliance with applicable guidelines;
- making available personal protective equipment ("PPE") and cleaning supplies at our managed pubs, and coordinating with suppliers to ensure steady supply;
- installing adequate signage, screens and barriers at our managed pubs and implementing measures to provide guidance to customers on social distancing and hygiene requirements;
- implementing technology systems at our managed pubs to limit contact, including using online menus (in addition to disposable menus), online booking and payment applications, encouraging contactless payments and using online applications to record customer information; and
- assisting our publicans in the training of staff and in the implementation of health and safety policies, and providing them with a PPE package to assist in commencing operations.

Reopening Costs

We estimate that we have used approximately £15 million in initial working capital for reopening our estate effective July 4, 2020. This includes:

- approximately £10 million of inventory bills from March 2020 paid before getting back to normal payment terms (mostly 60 days);
- approximately £2.5 million of cash provided to pubs needed to run the business (e.g., cash needed at tills); and
- approximately £2.5 million of opening maintenance capital expenditure to cover costs of signage, protector screens and other equipment.

Working capital estimates upon reopening

Management estimate non-financial accruals of up to approximately £176 million as of June 30, 2020:

- approximately £45 million of rent accrued through the period of closure;
- approximately £43 million of deferred tax, payroll and VAT, which we expect to be repaid over an extended period;
- approximately £52 million of fees associated with the Transaction, which were deferred to support our liquidity position; and
- approximately £36 million of payables such as accrued supplier payments, which we expect will be materially complete by the end of August 2020.

Management also estimate cash inflow from working capital of approximately £96 million as we reopen our business. This is driven by our revenue being received essentially immediately, while we pay our suppliers on extended terms, typically 60 days, and pay for our maintenance capital expenditures well into the project, also typically 60 days. For the period March to July 2020, during which the estate was closed, we paid off a significant proportion of our creditor payables in working capital. As we reopen the estate, our payables balance will recover, creating a cash inflow, receivable over approximately the first quarter after reopening and as we recover to normal volumes based on current assumptions. The exact timing and amount of this cash receivable is uncertain and will depend on trading volumes, supplier behaviour and any local, regional or national lockdown or other enforced closure of our estate in whole or in part.

As we begin to bring our business back on track after this period of closure, we are looking to our competitive advantages to recover from the impact of COVID-19, principal among which are:

- our format diversity, which offers us the ability to generate sales from various avenues;
- our scale and market position;
- the geographic diversity of our estate, which allows us to benefit from the best performing areas;
- ability to convert high-volume sites to the most suitable formats for accelerated growth; and
- ability to increase market share and improve market positioning.

The impact of COVID-19 on our business remains uncertain and will ultimately depend on a number of factors that cannot be accurately predicted at this time, including, but not limited to, the duration (including the extent of any resurgence in the future) and severity of the COVID-19 pandemic, the timing of and manner in which containment efforts are reduced or lifted, the timing and ability of vaccination and other treatments to combat COVID-19, the duration and magnitude of its impact on unemployment rates and consumer discretionary spending, the length of time it takes for demand and pricing to return to pre-COVID-19 levels and for normal economic and operating conditions to resume, which are all beyond our knowledge and control. Moreover, there are no comparable recent events that provide us with guidance.

For these reasons, we cannot reasonably estimate the impact of COVID-19 on our business with any certainty nor can we provide any assurance that COVID-19 will not continue to have a material adverse effect on our business, operating results, financial condition, cash flows and prospects. See “Risk Factors.”

Liquidity Update

We seek to maintain sufficient amounts of liquidity with an appropriate balance of cash, debt and equity to provide financial flexibility. On or about March 16, 2020, we fully drew our Revolving Facilities as a precautionary measure to increase liquidity and preserve financial flexibility in light of the current uncertainty resulting from the COVID-19 pandemic.

Effective July 13, 2020, the committed financing available under our Revolving Facilities Agreement was increased by £50 million and is available for 23 months from that date.

On July 17, 2020, TDR Capital contributed equity of £50 million to support our business in light of the challenges presented due to the COVID-19 pandemic. We intend to retain this amount as cash on our balance sheet and to utilize it to finance our business and operational needs as required.

We estimate additional cash inflows of approximately £41 million in aggregate over the period to March 2021 as a result of proceeds we expect to receive from the disposal of the 42 sites agreed with the CMA in connection with the Transaction and the new schemes announced by the UK government including the award of £1,000 of bonus for every furloughed employee we bring back to work and the net benefit of the reduction in VAT from 20% to 5% on food and non-alcoholic drinks. This estimate is based on our current trading expectations and assumes no change in trading outlook and, in particular, no local, regional or national lockdown or other enforced closure of our estate in whole or in part and no changes to government policies that would have an adverse impact on our current cash flow expectations.

Liquidity profile between March 2020 and reopening of our pubs

Our cash and cash equivalents as of March 30, 2020 was £229.3 million and our cash and cash equivalents as of July 3, 2020 was £96.1 million, in each case, excluding cash at the Unique Group (which was £86.5 million as of July 3, 2020). As of July 3, 2020, we also had £25 million available to draw under the overdraft facility available to us under the Revolving Facilities Agreement.

During the period from March 30, 2020 to July 3, 2020, we received cash inflows from rental income (estimated £10.9 million in aggregate) and certain corporate tax refunds (estimated £10.1 million in aggregate). We implemented strict cash management procedures during our period of government-mandated closure. During this period, our cash outflows consisted of capital expenditures (estimated £26.8 million), accounts payable consisting of payments to suppliers, utilities payments and payments relating to information technology, refuse collection, etc (estimated £67.8 million in aggregate), payroll costs net of furlough grants received from the UK government (estimated £17.8 million in aggregate), interest payments in respect of Stonegate Group's outstanding debt and certain amortization payments made by Ei Group in respect of the Unique Securitized Notes (estimated £41 million in aggregate) and certain other miscellaneous payments estimated at £0.8 million in aggregate.

Our cash and cash equivalents of £96.1 million as of July 3, 2020 included £9.5 million of cash held by the EIG Insurance Captive Cell to which we have restricted access. Cash held in this account is intended to be used for the payment of insurance claims or can be returned to Ei Group as a dividend if there are underwriting profits.

Material Uncertainty Related to Going Concern

In note 1.2 of Stonegate Group's condensed consolidated interim financial statements as of and for the 28 weeks ended April 12, 2020 and the 16 weeks ended January 19, 2020, and in note 1 and note 18 of Ei Group's condensed consolidated interim financial statements as of and for the 13 weeks ended December 28, 2019, we make reference to the COVID-19 pandemic and state that the events, and the future uncertain effect on our trading, arising as a result of the COVID-19 pandemic represent a material uncertainty that may cast significant doubt on our ability to continue as a going concern and, therefore, to continue realizing our assets and discharging our liabilities in the normal course of business.

See "—Recent Developments" and "Risk Factors—Risks Related to our Business—There is material uncertainty on our ability to continue as a going concern." See also Stonegate Group's condensed consolidated interim financial statements as of and for the 28 weeks ended April 12, 2020 and the 16 weeks ended January 19, 2020 and Ei Group's condensed consolidated interim financial statements as of and for the 13 weeks ended December 28, 2019 included elsewhere in this Offering Memorandum.

Impairment Review

The full extent of the adverse impact of COVID-19 on our business, results of operations, financial condition and liquidity cannot be predicted. However, it already has, and may continue to have, a material effect on our financial results. Management has concluded that the COVID-19 pandemic has been a triggering event in the second quarter of 2020, which resulted in management performing an impairment evaluation of our assets, including property, plant and equipment and operating leases.

Property, plant and equipment 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.

Based on our evaluation of expected undiscounted future cash flows of property, plant and equipment related to the effects of the COVID-19 pandemic to determine if the carrying value of these assets groups is recoverable, we have recorded a total impairment charge of £24 million as of and for the 28 weeks ended April 12, 2020. Our impairment assessments are based on projected financial information which management believes to be reasonable. However, actual outcomes may vary from these projections.

See note 9 of Stonegate Group's condensed consolidated interim financial statements as of and for the 28 weeks ended April 12, 2020.

About Stonegate Group

Stonegate Pub Company Limited (the "Parent") was incorporated as an exempted company with limited liability under the laws of the Cayman Islands on August 13, 2010, in connection with our acquisition of pubs from Mitchells & Butlers. We began trading operations in November 2010 after the acquisition of pubs from Mitchells & Butlers was completed. The registered office of the Company is at the offices of Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands and its telephone number at that address is +1 345 949 1040.

Stonegate Pub Company Bidco Holdings Limited ("Holdco") was incorporated on July 5, 2019 as a private limited company under the laws of England and Wales in connection with the Transaction. The registered office of Holdco is Porter Tun House, 500 Capability Green, Luton, Bedfordshire, LU1 3LS, United Kingdom, and its telephone number at that address is +44 (0) 845 126 2944.

Stonegate Pub Company Bidco Limited ("Bidco") was incorporated on July 5, 2019 as a private limited company under the laws of England and Wales in connection with the Transaction. The registered office of

Bidco is Porter Tun House, 500 Capability Green, Luton, Bedfordshire, LU1 3LS, United Kingdom, and its telephone number at that address is +44 (0) 845 126 2944.

Stonegate Pub Company Financing 2019 plc (the "Issuer") was incorporated on July 9, 2019 as a public limited company under the laws of England and Wales in connection with the Transaction Financing. The Issuer is a wholly-owned finance subsidiary of Holdco. The Issuer is organized as a special purpose finance subsidiary to facilitate the offering of debt securities with no business operations or material assets, other than its rights under the Existing Proceeds Loans made to Bidco pursuant to the Existing Proceeds Loan Agreements and, following the issuance of the New Notes and the use of proceeds thereof, its rights under the New Proceeds Loans to be made to Bidco pursuant to the New Proceeds Loan Agreements. The registered office of the Issuer is Porter Tun House, 500 Capability Green, Luton, Bedfordshire, LU1 3LS, United Kingdom and its telephone number at that address is +44 (0) 845 126 2944.

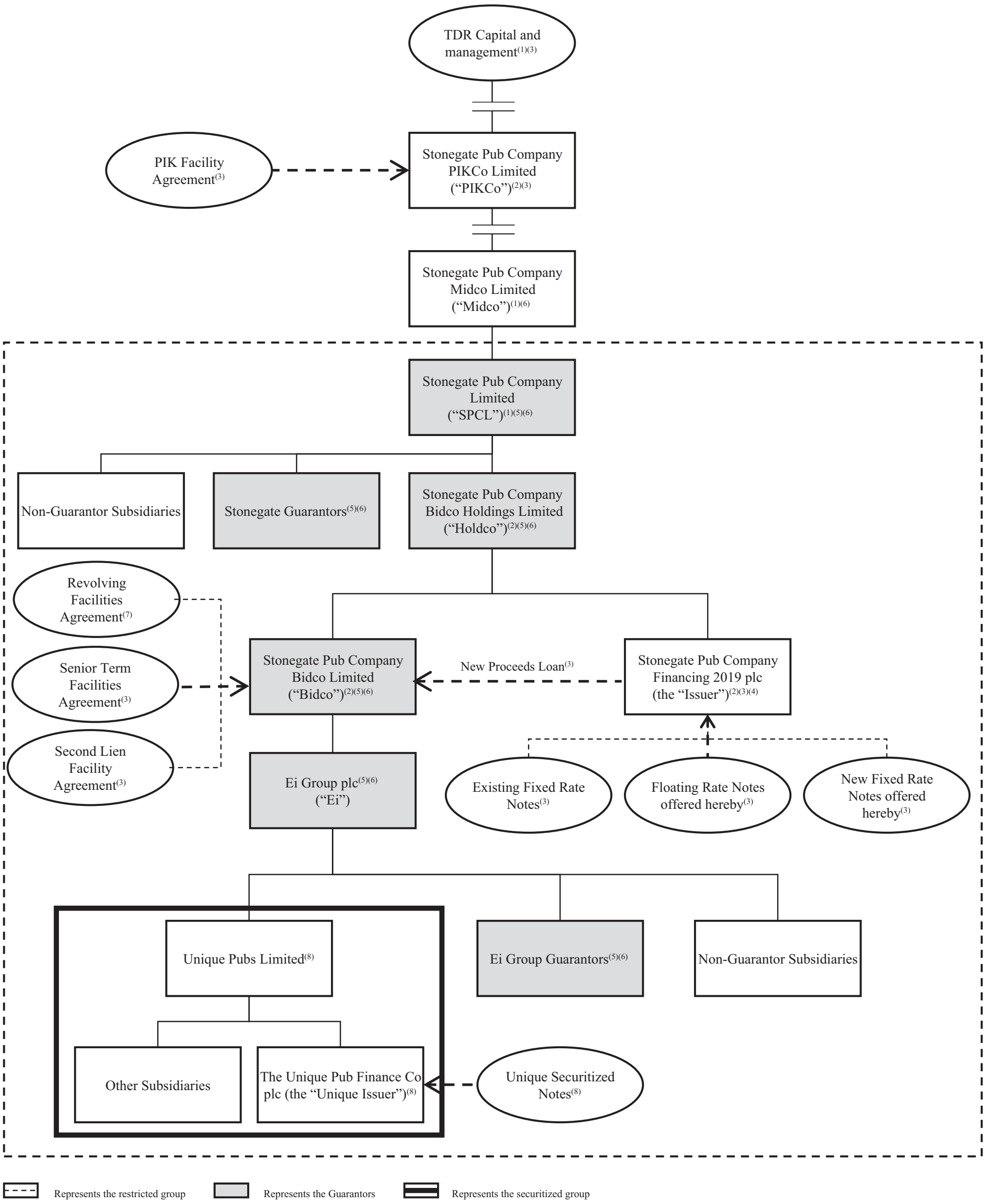
About TDR Capital

TDR Capital is a leading private equity firm which managed funds of over €10 billion of committed capital as of the end of 2019. It was founded in 2002 by Manjit Dale and Stephen Robertson, who were previously partners at DB Capital Partners. TDR Capital has an experienced team of investment professionals and operating partners and has a low-volume investment strategy based on principles developed by the investment team over the past decade. TDR Capital seeks to spend significant resources on each investment and to focus on operational excellence through a tested and integrated operating partner model.

Intense pre-investment analysis and post-investment involvement mean that TDR Capital is selective, typically making only one to three investments a year. TDR Capital takes an active role in overseeing the operations of its investments, working in partnership with management through board representation and professional support.

Corporate and Financing Structure

The following diagram summarizes our corporate structure and principal outstanding financing arrangements after giving effect to the Transaction Financing and the application of the proceeds therefrom. For a summary of the material financing arrangements identified in this diagram, see "Capitalization," "Description of the Notes" and "Description of Other Indebtedness." The diagram is intended for illustrative purposes only and does not include all legal entities. All entities shown below are 100% directly or indirectly wholly-owned, unless otherwise mentioned.



(1) TDR Capital controls Stonegate Group. Following the Transaction, Ei Group has become a part of Stonegate Group. As of the date of this Offering Memorandum, TDR Capital and Stonegate Group's senior management hold, directly or indirectly, 99.5% and 0.5%, respectively, of the shares of Stonegate Holdings, which is an indirect parent company of Stonegate Group. See "Principal Shareholders" and "Description of the Notes."

(2) PIKCo, Holdco, Bidco and the Issuer were incorporated as holding companies for the purposes of the Transaction and have no independent business operations other than those in connection with the Transaction.

(3) The original financing for the Transaction included: (a) equity invested by Midco and various investment funds managed by TDR Capital; (b) borrowings under the PIK Facility Agreement; (c) borrowings under the Senior Bridge Facilities Agreement; (d) borrowings under the Senior Term Facilities Agreement and (e) borrowings under the Second Lien Facility Agreement. On July 13, 2020, the Issuer issued £500 million in aggregate principal amount of the Existing Fixed Rate Notes, the proceeds of which were used to prepay £500 million of borrowings under the Senior Bridge Facilities. On or about the Issue Date, we intend

to repay the remaining borrowings under the Senior Bridge Facilities Agreement and repay £273 million in aggregate principal amount of borrowings under the Senior Term Facilities Agreement with the proceeds of the Offering. See "Use of Proceeds." To that end, on or about the Issue Date, the Issuer will on-lend the proceeds of the Offering to Bidco, which will apply the proceeds to (i) repay the outstanding borrowings under the Existing Proceeds Loans to the Issuer, which the Issuer will in turn use to repay the outstanding borrowings under the Senior Bridge Facilities Agreement and (ii) repay the outstanding borrowings under the Senior Term Facilities Agreement.

(4) The Issuer is organized as a special purpose finance subsidiary to facilitate the offering of debt securities with no business operations or material assets, other than its rights under the Existing Proceeds Loans made pursuant to the Existing Proceeds Loan Agreements and, following the issuance of the New Notes and the use of proceeds thereof, its rights under the New Proceeds Loans made pursuant to the New Proceeds Loan Agreements. The Issuer is offering €300.0 million in aggregate principal amount of Floating Rate Notes and £950.0 million in aggregate principal amount of the New Fixed Rate Notes.

(5) The Existing Fixed Rate Notes are, and on the Issue Date the New Notes will be, senior obligations of the Issuer and guaranteed on a senior secured basis by the Guarantors. The Note Guarantees, in the case of the Existing Fixed Rate Notes are, and in the case of the New Notes will be, subject to the Agreed Security Principles and the Indenture. The Guarantors also guarantee, subject to the Agreed Security Principles, obligations under the Revolving Facilities Agreement, the Senior Term Facilities Agreement and the Second Lien Facility Agreement. See "Description of the Notes—Note Guarantees." For the 52 weeks ended September 29, 2019, the Issuer and the Guarantors would have represented 92% of Stonegate Group's pro forma revenue (excluding the revenue contribution of the Unique Group, net of certain consolidation adjustments) and 94% of the sum of Stonegate Group Adjusted EBITDA for the 52 weeks ended September 29, 2019 and Ei Group Underlying EBITDA (excluding the underlying EBITDA contribution of the Unique Group, net of certain consolidation adjustments) for the 52 weeks ended September 30, 2019. As of September 29, 2019, the Issuer and the Guarantors would have represented 98% of the sum of Stonegate Group's total assets as of September 29, 2019 and Ei Group's total assets (excluding the total assets contribution of the Unique Group, net of certain consolidation adjustments). Any company that is, or becomes, a guarantor in respect of the Revolving Facilities will also be required, subject to the Agreed Security Principles, to become a guarantor in respect of the Notes. Consistent with the Agreed Security Principles, no guarantee or security will be provided by any member of the Unique Group or in respect of any assets of the Unique Group. Further, the revenue, underlying EBITDA and total assets of the Unique Group will be excluded in determining guarantor coverage levels.

(6) The Existing Fixed Rate Notes are, and upon their issuance and subject to the Agreed Security Principles, the applicable Security Documents and Permitted Collateral Liens, the New Notes will be, secured by certain material assets of the Issuer and the Guarantors. This Collateral also secures, subject to the Agreed Security Principles, obligations under the Revolving Facilities Agreement, the Senior Term Facilities Agreement and the Second Lien Facility Agreement. Pursuant to the terms of the Intercreditor Agreement, any liabilities in respect of obligations under the Revolving Facilities Agreement, any Hedging Agreements and any Operating Facility (as defined in the Intercreditor Agreement) that are secured by assets that also secure obligations under the Notes and the Note Guarantees, will receive priority with respect to any proceeds received upon any enforcement action over any such assets. See "Description of the Notes—Security—The Collateral;"

(7) On July 17, 2019, we entered into the Revolving Facilities Agreement, which provided for committed financing in an amount of £200 million. Effective July 13, 2020, the Revolving Facilities Agreement was amended and the committed financing under it was increased by an additional £50 million. For a description of the Revolving Facilities Agreement, see "Description of Other Indebtedness—Revolving Facilities Agreement."

(8) In connection with the Transaction, the Unique Securitized Notes have been rolled over and form part of Stonegate Group's capital structure. For a description of the Unique Securitization, see "Description of Other Indebtedness—Unique Securitized Notes."

The Offering

The summary below describes the principal terms of the New Notes, the Note Guarantees and the Collateral. It is not intended to be complete and certain of the terms and conditions described below are subject to important exceptions. You should carefully review the "Description of the Notes" section of this Offering Memorandum for more detailed descriptions of the terms and conditions of the New Notes.

Issuer	Stonegate Pub Company Financing 2019 plc
New Notes Offered	€300,000,000 aggregate principal amount of floating rate senior secured notes due 2025 (the "Floating Rate Notes"); and £950,000,000 aggregate principal amount of 8.25% senior secured notes due 2025 (the "New Fixed Rate Notes") issued as Additional Notes under the Indenture pursuant to which the Existing Fixed Rate Notes were issued Except as otherwise specified with respect to the New Fixed Rate Notes, the New Fixed Rate Notes will have the same terms as the Existing Fixed Rate Notes and will constitute a single class of debt securities with the Existing Fixed Rate Notes under the Indenture, including with respect to waivers, amendments and offers to purchase. However, the New Fixed Rate Notes will not form part of the same series of notes as the Existing Fixed Rate Notes. The New Fixed Rate Notes offered hereby will bear a different rate of interest to the Existing Fixed Rate Notes, will have new ISINs and common codes and will not be fungible with the Existing Fixed Rate Notes.
Issue Date	July 31, 2020
Maturity Date	Floating Rate Notes: July 31, 2025 New Fixed Rate Notes: July 31, 2025
Interest Rates	Floating Rate Notes: Three-month EURIBOR plus 5.75%, as determined by the Calculation Agent New Fixed Rate Notes: 8.25%
Interest Payment Dates	Floating Rate Notes: Quarterly in arrears on each February 15, May 15, August 15 and November 15, commencing on November 15, 2020 New Fixed Rate Notes: Semi-annually in arrears on each January 15 and July 15, commencing on January 15, 2021 Interest will accrue from the Issue Date and will be payable in cash
Issue Price	Floating Rate Notes: 93.00% plus accrued interest, if any, from the Issue Date New Fixed Rate Notes: 100.00% plus accrued interest, if any, from the Issue Date
Denomination	The Floating Rate Notes will have a minimum denomination of €100,000 and any integral multiples of €1,000 in excess thereof. The Floating Rate Notes in denominations of less than €100,000 will not be available The New Fixed Rate Notes will have a minimum denomination of £100,000 and any integral multiples of £1,000 in excess thereof. The New Fixed Rate Notes in denominations of less than £100,000 will not be available

Ranking of the New Notes	The New Notes will be: • senior obligations of the Issuer and will rank equal in right of payment with any existing or future indebtedness of the Issuer that is not expressly subordinated to the New Notes; • secured by the Collateral as set forth below under "—Collateral," along with obligations under the Revolving Facilities Agreement, the Senior Term Facilities Agreement, the Second Lien Facility Agreement and hedging obligations (although any liabilities in respect of obligations under any Revolving Facilities Agreement and certain hedging obligations that are secured by the Collateral will receive priority over the holders of the New Notes with respect to any proceeds received upon any enforcement action over the Collateral); • senior in right of payment to any future indebtedness of the Issuer that is expressly subordinated in right of payment to the New Notes and any Note Guarantee; • effectively senior in right of payment to any existing or future unsecured obligations of the Issuer to the extent of the value of the Collateral that is available to satisfy the obligations under the New Notes; and • unconditionally guaranteed on a senior secured basis by the Guarantors.
Note Guarantees	The Existing Fixed Rate Notes are, and on or about the Issue Date, the New Notes will be, guaranteed on a senior secured basis by the Guarantors. See "Description of the Notes—Note Guarantees." The Note Guarantees are, in the case of the Existing Fixed Rate Notes, and will be in the case of the New Notes, subject to contractual and legal limitations, and may be released under certain circumstances. See "Description of the Notes—Note Guarantees" and "Risk Factors—Risks Related to Our Financial Profile, the New Notes and the Note Guarantees."
Ranking of the Note Guarantees	Each Note Guarantee is, in the case of the Existing Fixed Rate Notes, and will be, in the case of the New Notes: • a senior obligation of the relevant Guarantor and will rank equal in right of payment with such Guarantor's existing and future indebtedness that is not subordinated in right of payment to its Note Guarantee; • secured by the Collateral as set forth below under "—Collateral;" • senior in right of payment to any of such Guarantor's existing and future indebtedness that is subordinated in right of payment to its Note Guarantee; • effectively senior to such Guarantor's existing and future unsecured indebtedness to the extent of the value of the property or assets securing its Note Guarantee; and • effectively subordinated to such Guarantor's existing and future indebtedness that is secured by property or assets that do not secure its Note Guarantee, to the extent of the value of the property or assets securing such indebtedness.

The Note Guarantees are, in the case of the Existing Fixed Rate Notes, and will be, in the case of the New Notes, subject to release under certain circumstances. See “Risk Factors—Risks Related to Our Financial Profile, the New Notes and the Note Guarantees” and “Description of the Notes—Note Guarantees.”

Collateral . . . . Upon the issuance of the New Notes, subject to the operation of the Agreed Security Principles, the applicable Security Documents and the grant of further Permitted Collateral Liens, the New Notes will be secured by fixed and floating security over substantially all of the assets of the Issuer and the Guarantors granted in favor of the Security Agent for the benefit of the secured parties (which includes the Trustee on behalf of the holders of the New Notes) including :

(a) first legal mortgages over freehold property in England and Wales vested in the Issuer and the Guarantors and, in the case of any other real property, first fixed equitable security but excluding any leasehold property that has 25 years or less to run or has a rack-rent payable in respect thereof. Given the large volume of individual real property owned and leased by the Guarantors, it is not practicable to register such security at the land registry;

(b) security over all shares in the Issuer and the Guarantors;

(c) security over certain bank accounts in England and Wales of the Issuer and the Guarantors; and

(d) the assignment of rights of the Issuer and the Guarantors under certain insurance policies and monetary claims,

(collectively, the “Collateral”).

Notwithstanding the foregoing, certain assets may not be secured or such security may not be perfected in accordance with the Agreed Security Principles, including:

- if the cost of providing security is not proportionate to the benefit accruing to the Holders and the other secured parties;
- if providing such security requires consent of a third party and, if the asset is material, such consent cannot be obtained after the use of reasonable endeavors;
- if providing such security would be prohibited by applicable law, general statutory limitations, financial assistance, corporate benefit, fraudulent preference, “thin capitalization” rules or similar matters or entering into the Security Documents would conflict with fiduciary duties of directors, contravene any legal or regulatory prohibition or result in a risk of personal or criminal liability on the part of directors or officers;
- if the granting of security or perfecting such security would have a material adverse effect on the ability of such Subsidiary to conduct its operations and business in the ordinary course as otherwise permitted by the Indenture;
- in the case of bank accounts, notices to the banks with whom the accounts are maintained will only be served if required by local laws to perfect the relevant security; and
- no guarantee or security will be provided by any member of the Unique Group or in respect of any assets of the Unique Group.

Pursuant to the terms of the Intercreditor Agreement, any liabilities in respect of obligations under the Revolving Facilities Agreement, certain hedging obligations and any Operating Facility (as defined in the Intercreditor Agreement) that are secured by the Collateral that also secures our obligations under the Notes and the Note Guarantees, will receive priority with respect to any proceeds received upon any enforcement action over any such assets. Any remaining proceeds received upon any enforcement action over any Collateral, after all obligations under the Revolving Facilities Agreement, the Hedging Agreements and any Operating Facility have been repaid from such recoveries, will be applied, first, pro rata in repayment of all obligations under the Indenture, the Notes and the Senior Term Facilities Agreement and any other indebtedness of the Issuer and the Guarantors permitted to be Incurred and secured by the Collateral pursuant to the Indenture and the Intercreditor Agreement on a *pari passu* basis with the Notes and the loans under the Senior Term Facilities Agreement and, second, in repayment of all obligations under the Second Lien Facility Agreement and any other indebtedness of the Issuer and the Guarantors permitted to be Incurred and secured by the Collateral pursuant to the Indenture and the Intercreditor Agreement on a *pari passu* basis with the Second Lien Facility Agreement. See "Description of Other Indebtedness—Intercreditor Agreement."

The security interests over the Collateral may be released under certain circumstances. See "Risk Factors—Risks Related to Our Financial Profile, the New Notes and the Note Guarantees," "Description of Other Indebtedness—Intercreditor Agreement" and "Description of the Notes—Security—Release of Liens."

Optional Redemption of the Floating Rate Notes . . . . Prior to July 31, 2021, the Issuer will be entitled at its option to redeem all or a portion of the Floating Rate Notes at a redemption price equal to 100% of the principal amount of the Floating Rate Notes redeemed, plus accrued and unpaid interest, if any, plus the applicable "make whole" premium described in this Offering Memorandum.

On or after July 31, 2021, the Issuer will be entitled at its option to redeem all or a portion of the Floating Rate Notes at the redemption prices set forth under the caption "Description of the Notes—Optional Redemption," plus accrued and unpaid interest, if any.

Optional Redemption of the New Fixed Rate Notes . . . . Prior to July 31, 2022, the Issuer will be entitled at its option to redeem all or a portion of the New Fixed Rate Notes at a redemption price equal to 100% of the principal amount of the New Fixed Rate Notes redeemed, plus accrued and unpaid interest, if any, plus the applicable "make whole" premium described in this Offering Memorandum.

On or after July 31, 2022, the Issuer will be entitled at its option to redeem all or a portion of the New Fixed Rate Notes at the redemption prices set forth under the caption "Description of the Notes—Optional Redemption," plus accrued and unpaid interest, if any.

Prior to July 31 , 2022, the Issuer will be entitled at its option, on one or more occasions, to redeem the New Fixed Rate Notes in

	an aggregate principal amount not to exceed 40% of the original aggregate principal amount of the New Fixed Rate Notes (including any additional New Fixed Rate Notes) with the net cash proceeds from certain equity offerings at a redemption price equal to 108.25% of the principal amount outstanding in respect of the New Fixed Rate Notes redeemed, plus accrued and unpaid interest, if any, provided that at least 50% of the original aggregate principal amount of the New Fixed Rate Notes (not including additional New Fixed Rate Notes) remains outstanding immediately after each such redemption. See "Description of the Notes—Optional Redemption."
Additional Amounts	Any payments made by the Issuer, the Successor Company (as defined herein) or any Guarantor with respect to the Notes will be made without withholding or deduction for or on account of taxes unless required by law. If the Issuer, the Successor Company or the Guarantors are required by law to withhold or deduct amounts for or on account of tax imposed by the United Kingdom (or certain other relevant taxing jurisdictions) with respect to a payment to the holders of the Notes, the Issuer, the Successor Company or the relevant Guarantor will, subject to certain exceptions, pay the additional amounts necessary so that the net amount received by the holders of the Notes after the withholding or deduction is not less than the amount that they would have received in the absence of the withholding or deduction. See "Description of the Notes—Additional Amounts."
Redemption for Taxation Reasons ...	In the event of certain developments affecting taxation, the Issuer may redeem the Notes in whole, but not in part, at a redemption price of 100% of the principal amount, plus accrued and unpaid interest, if any, and additional amounts, if any, to the date of redemption. See "Description of the Notes—Redemption for Taxation Reasons."
Original Issue Discount	The Floating Rate Notes offered hereby will be issued with original issue discount ("OID") for United States federal income tax purposes. In addition to the stated interest on the Floating Rate Notes, a holder subject to United States federal income taxation will be required to include the OID in gross income (as ordinary income), on a constant yield to maturity basis, in advance of the receipt of the cash payment thereof and regardless of such holder's regular method of accounting for United States federal income tax purposes. See "Tax Considerations—Certain United States Federal Income Tax Consequences."
Further issuance of Notes	Pursuant to the terms of the Indenture, the Issuer will be permitted to issue additional Notes. Additional Notes shall be treated, along with all other notes issued under the Indenture, as a single class for the purposes of the Indenture with respect to waivers, amendments and all other matters which are not specifically distinguished for such series. For all purposes other than U.S. federal income tax purposes, additional Notes shall be deemed to form one series with any notes previously issued under the Indenture if they have terms substantially identical in all material respects to such other notes. In the event that any additional Notes issued after the date hereof and sold pursuant to Rule 144A are not fungible with any notes previously issued under the Indenture for U.S. federal income tax purposes, such non-fungible additional Notes shall be issued with a separate ISIN, Common Code, CUSIP or other securities identification number, as applicable, so that they are distinguishable from such

	previously issued notes under the Indenture. Additional Notes sold pursuant to Regulation S from time to time may be issued with the same ISIN, Common Code, CUSIP or other securities identification number as the applicable series of notes previously issued under the Indenture without being fungible with such series of notes for U.S. federal income tax purposes. **If you are a U.S. holder (as defined in "Tax Considerations—Certain United States Federal Income Tax Consequences") considering the purchase of Notes sold pursuant to Regulation S, you should consult your tax advisors concerning the particular U.S. federal income tax consequences to you of the purchase, ownership and disposition of such Notes, including with respect to the potential issuance of additional Notes that are not fungible with the applicable series of initial notes issued under the Indenture for U.S. federal income tax purposes, but which nevertheless are not capable of being separately identified.**
Change of Control	Upon the occurrence of certain events constituting a change of control, the Issuer may be required to offer to repurchase all outstanding Notes at a purchase price in cash equal to 101% of the principal amount redeemed on the date of purchase plus accrued and unpaid interest, if any, to the date of purchase. See "Description of the Notes—Change of Control." However, a change of control will not be deemed to have occurred if certain consolidated leverage ratios are not exceeded in connection with such an event. See "Description of the Notes—Change of Control."
Certain Covenants	The Indenture relating to the Notes, among other things, restricts the ability of the Parent and its restricted subsidiaries to: • incur or guarantee additional indebtedness; • pay dividends or make other distributions or purchase or redeem our stock; • make investments or other restricted payments; • enter into agreements that restrict our restricted subsidiaries' ability to pay dividends; • transfer or sell assets; • engage in transactions with affiliates; • create liens on assets to secure indebtedness; • impair security interests; and • merge or consolidate with or into another company. Each of these covenants is subject to significant exceptions and qualifications. See "Description of the Notes—Certain Covenants."
Transfer Restrictions	We have not registered the New Notes or the Note Guarantees under the Securities Act. You may only offer or sell the New Notes in transactions that are exempt from, or not subject to, the registration requirements of the Securities Act, or pursuant to an effective registration statement. See "Transfer Restrictions." We have not agreed to, or otherwise undertaken, to register the New Notes under the Securities Act.
No Prior Market	The New Notes will be new securities for which there is currently no established trading market. Although certain of the Initial Purchasers have advised us that they intend to make a market in

	the New Notes, they are not obligated to do so and they may discontinue market-making at any time without notice. Accordingly, there is no assurance that an active trading market will develop for the New Notes.
Listing	Application will be made to the Authority for the listing of and permission to deal in the New Notes on the Official List of the Exchange. There can be no assurance that the New Notes will be listed on the Official List of the Exchange, that such permission to deal in the New Notes will be granted or that such listing will be maintained.
Use of Proceeds	We expect to use the gross proceeds from this Offering to repay in full the outstanding borrowings under the Senior Bridge Facilities and £273 million in aggregate principal amount of borrowings under the Senior Term Facilities. See "Use of Proceeds."
Governing Law	The Indenture, the Existing Fixed Rate Notes and the Note Guarantees in respect of the Existing Fixed Rate Notes are, and the New Notes and the Notes Guarantees in respect of the New Notes will be, governed by the laws of the State of New York. The Revolving Facilities Agreement, the Senior Term Facilities Agreement, the Second Lien Facility Agreement and the Intercreditor Agreement are governed by English law. The Security Documents are governed by English law or the laws of the Cayman Islands, as applicable.
Security Agent	Barclays Bank PLC
Trustee	Deutsche Trustee Company Limited
Paying Agent	Deutsche Bank AG, London Branch
Calculation Agent	Deutsche Bank AG, London Branch
Registrar and Transfer Agent	Deutsche Bank Luxembourg S.A.
Listing Agent	Carey Olsen Corporate Finance Limited
Risk Factors	**Investing in the New Notes involves a high degree of risk. See the "Risk Factors" section for a description of certain of the risks you should carefully consider before investing in the New Notes.**

Stonegate Group's Summary Historical and Pro Forma Financial and Other Information

The following tables summarize Stonegate Group's historical and pro forma financial information as of the dates and for the periods indicated. The summary historical consolidated financial information as of and for the 52 weeks ended September 24, 2017, the 53 weeks ended September 30, 2018 and the 52 weeks ended September 29, 2019, have been derived from Stonegate Group's audited consolidated financial statements included elsewhere in this Offering Memorandum. The summary historical condensed consolidated financial information as of and for the 16 weeks ended January 20, 2019 and January 19, 2020 and the 28 weeks ended April 14, 2019 and April 12, 2020, have been derived from Stonegate Group's unaudited condensed consolidated interim financial statements included elsewhere in this Offering Memorandum. These financial statements have been prepared in accordance with the recognition and measurement requirements of IFRS as adopted by the European Union.

Stonegate Group's financial year accounting periods run from the calendar day following the previous financial year end, which, for the years 2017, 2018 and 2019 were September 26, 2016, September 25, 2017 and October 1, 2018, respectively, to the Sunday nearest to our accounting reference date. Accordingly, from time to time, Stonegate Group's financial year accounting period covers a 53-week period instead of a 52-week period. For instance, Stonegate Group's financial year accounting period for 2018 was 53 weeks, whereas for 2017 and 2019, it was 52 weeks. Consequently, the results for the 53 weeks ended September 30, 2018 were positively impacted by an additional week's trading relative to the 52 weeks ended September 24, 2017 and the 52 weeks ended September 29, 2019, which impacts the comparability of results over these periods.

Stonegate Group's historical consolidated financial information includes the financial information of Ei Group from and including March 3, 2020, the date on which the Transaction was completed. For the financial periods preceding March 3, 2020, Stonegate Group's historical consolidated financial information does not include the financial information of Ei Group, which are discussed elsewhere in this Offering Memorandum. See "Ei Group Management's Discussion and Analysis of Financial Condition and Results of Operations." See also "Presentation of Financial and Other Information." Accordingly, Stonegate Group's historical consolidated financial information as of and for the 28 weeks ended April 12, 2020 may not be comparable to Stonegate Group's historical consolidated financial information as of and for the 28 weeks ended April 14, 2019.

IFRS 16 (Leases) became effective on January 1, 2019 and applies to the first full financial year commencing on or after that date. Stonegate Group's first full financial year following the effective date of IFRS 16 began September 30, 2019. Accordingly, we have applied IFRS 16 for financial periods beginning September 30, 2019. We have adopted IFRS 16 under the modified retrospective approach. Under this approach, comparative information for previous years is not restated and, as a result, no IFRS 16 adjustments have been made to our financial statement for the periods prior to the 16 weeks ended January 19, 2020. However, certain financial information as of and for the 16 weeks ended January 19, 2020, the 28 weeks ended April 12, 2020 and the 52 weeks ended January 19, 2020 is presented in this Offering Memorandum on an adjusted basis, excluding the impact of IFRS 16, to provide a meaningful basis for comparing our financial statements with prior periods. See "Stonegate Group Management's Discussion and Analysis of Financial Condition and Results of Operation—Factors Affecting the Comparability of our Results of Operations—Changes in Accounting Policy."

We have also presented below certain income statement information, as well as the other financial and operating information, for the 52 weeks ended January 19, 2020, which has been derived by adding the relevant item for the 52 weeks ended September 29, 2019 and for the 16 weeks ended January 19, 2020 (excluding the impact of IFRS 16), and subtracting the relevant item for the 16 weeks ended January 20, 2019.

In light of the COVID-19 pandemic, on March 20, 2020, the UK government directed the closure of all pubs and bars in the United Kingdom. Pursuant to this directive, our pubs closed for business on March 20, 2020. Our pubs reopened for business on July 4, 2020 and, as of July 19, 2020, we had reopened 77% of our managed pubs and we believe that our publicans had reopened an estimated 89% of the pubs in our publican partnership estate. Accordingly, between March 20, 2020 and April 12, 2020, we did not conduct any significant trading activity. For that reason, the 16 weeks ended January 19, 2020 was our last full trading quarter that was not impacted by the COVID-19 pandemic and, we believe, the financial information as of and for the 16 weeks and the 52 weeks ended January 19, 2020 more accurately represent our operating and financial performance in a steady state of business than the financial information as of and for the 28 weeks and the 52 weeks ended April 12, 2020. Accordingly, we have presented below certain historical financial and operating information for the 16 weeks and 52 weeks ended January 19, 2020.

We also present below certain information relating to our operating, non-IFRS measures for the 53 weeks ended September 30, 2018 on a 52-week basis to enhance comparability with prior periods as noted in the individual footnotes. In addition, we present certain non-IFRS measures below that we use to evaluate our operating and financial performance.

For Stonegate Group, non-IFRS measures include, among others, Stonegate Group Pre-adjusted EBITDA, Stonegate Group Adjusted EBITDA, Stonegate Group Adjusted EBITDA Margin, Stonegate Group Adjusted EBITDAR, Stonegate Group Cash Conversion, Stonegate Group Drink Sales Growth (Like for Like), Stonegate Group Food Sales Growth (Like for Like), Stonegate Group Revenue Growth (Like for Like), Stonegate Group Pub Profit Growth (Like for Like), Stonegate Group Gross Margin Growth (Like for Like), Stonegate Group Gross Margin for Drinks (Ongoing), Stonegate Group Gross Margin for Food (Ongoing), Stonegate Group Total Gross Margin (Ongoing) and Stonegate Group Return on Investment.

For the combined group, pro forma and other non-IFRS measures include, among others, Combined Group Adjusted EBITDA (excluding the impact of IFRS 16), Pro Forma Adjusted EBITDA (excluding the impact of IFRS 16), Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS 16), Pro Forma Adjusted EBITDA Including Synergies Margin (excluding the impact of IFRS 16), Pro Forma Adjusted EBITDAR Including Synergies (excluding the impact of IFRS 16), Adjusted Net Debt, Secured First Lien Adjusted Net Debt, Adjusted Cash Interest Expense and various leverage coverage and loan to value ratios. These measures are not identified as accounting measures under IFRS and therefore should not be considered as alternative measures to evaluate our performance. Adjusted Net Debt, Adjusted Cash Interest Expense, Secured First Lien Adjusted Net Debt and Unique Group Adjusted Net Debt presented below provide information on an "adjusted" basis to give effect to the Transaction Financing and £50 million of equity contribution by TDR Capital in July 2020, and the application of the proceeds therefrom. The unaudited adjusted financial information presented below does not purport to represent what Stonegate Group's actual net debt and lease adjusted net debt would have been had the Transaction occurred on January 19, 2020, or what Stonegate Group's actual cash interest expense would have been had the Transaction occurred on January 21, 2019, nor does it purport to represent these metrics as of or for any future date or for any future period. The non-IFRS measures presented in this Offering Memorandum have been prepared for information purposes only and have not been prepared in accordance with IFRS or audited or reviewed in accordance with any applicable auditing standards. See "Presentation of Financial and Other Information—Non-IFRS Information" and "Risk Factors—Risks Related to Our Business—The adjustments to our Pro Forma Adjusted EBITDA (excluding the impact of IFRS 16) to derive our resulting Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS 16) should be treated with caution when making an investment decision."

The results of operations and other financial and operating information for prior years are not necessarily indicative of the results to be expected for any future period. This financial information should be read in conjunction with the historical consolidated financial statements and accompanying notes included elsewhere in this Offering Memorandum and discussed in "Presentation of Financial and Other Information," "Stonegate Group's Selected Historical Consolidated Financial Information," "Stonegate Group Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Unaudited Pro Forma Condensed Combined Financial Information."

(£ in millions)	For the 52 weeks ended September 24, 2017	For the 53 weeks ended September 30, 2018	For the 52 weeks ended September 29, 2019(2)	For the 16 weeks ended January 20, 2019(2)	For the 16 weeks ended January 19, 2020(3)	Excludes the Impact of IFRS 16(1) For the 16 weeks ended January 19, 2020(2)	For the 28 weeks ended April 14, 2019	For the 28 weeks ended April 12, 2020(3)(4)	Excludes the Impact of IFRS 16(1) For the 28 weeks ended April 12, 2020(4)
Consolidated Historical Income Statement Data									
Revenue	**697**	**774**	**853**	**258**	**279**	**279**	**453**	**452**	**452**
Other income	—	—	—	—	—	—	—	9	9
Operating costs	(616)	(676)	(752)	(239)	(217)	(236)	(409)	(411)	(446)
Operating profit/(loss) before depreciation, amortization, impairment and loss on disposal of non-current assets	**82**	**98**	**100**	**19**	**62**	**43**	**44**	**50**	**15**
Depreciation, amortization and impairment	(51)	(61)	(79)	(21)	(37)	(24)	(39)	(94)	(61)
Profit/(loss) on sale of non-current assets	(5)	(7)	(3)	(0.3)	(0.4)	(0.4)	—	—	—
Operating profit/(loss)	**25**	**30**	**19**	**(2)**	**24**	**18**	**5**	**(44)**	**(46)**
Finance income	0.1	0.1	0.1	0.01	0.001	0.001	—	—	—
Finance costs	(48)	(34)	(44)	(13)	(22)	(13)	(24)	(69)	(52)
Profit/(loss) before taxation	**(22)**	**(4)**	**(25)**	**(15)**	**2**	**5**	**(19)**	**(113)**	**(98)**
UK income tax credit/ (charge)	(2)	(3)	1	(0.6)	(0.01)	(0.01)	(1)	(20)	(20)
Profit/(loss) for period	**(24)**	**(8)**	**(24)**	**(16)**	**2**	**5**	**(20)**	**(133)**	**(118)**

(£ in millions)	As of September 24, 2017	As of September 30, 2018	As of September 29, 2019	As of January 19, 2020[3]	Excludes the Impact of IFRS 16[1] As of January 19, 2020	As of April 12, 2020[3]	Excludes the Impact of IFRS 16[1] As of April 12, 2020[4]
Selected Consolidated Historical Balance Sheet Data							
Non-current assets	716	782	853	1,386	853	4,934	4,217
Property, plant and equipment	*521*	*531*	*550*	*1,233*	*556*	*4,546*	*3,665*
Investment property	—	—	—	—	—	*130*	*109*
Other intangibles	*80*	*125*	*154*	*4*	*148*	*5*	*187*
Goodwill	*114*	*125*	*142*	*142*	*142*	*235*	*245*
Current assets	60	70	74	64	73	425	434
Cash and cash equivalents	*17*	*26*	*22*	*16*	*16*	*319*	*319*
Non-current assets held for sale . . .	—	—	—	—	—	44	44
Current liabilities	(148)	(224)	(157)	(175)	151	(380)	(357)
Borrowings	*(21)*	*(104)*	*(17)*	*(40)*	*(6)*	*(99)*	*(44)*
Non-current liabilities	(622)	(626)	(781)	(1,283)	(781)	(4,112)	(3,413)
Borrowings	*(590)*	*(591)*	*(739)*	*(1,248)*	*(739)*	*(3,873)*	*(3,152)*
Total funds/ (deficit)	7	2	(11)	(9)	(6)	911	925

(£ in millions)	For the 52 weeks ended September 24, 2017	For the 53 weeks ended September 30, 2018	For the 52 weeks ended September 29, 2019	For the 16 weeks ended January 20, 2019	For the 16 weeks ended January 19, 2020[3]	Excludes the Impact of IFRS 16[1] For the 16 weeks ended January 19, 2020	For the 28 weeks ended April 14, 2019	For the 28 weeks ended April12, 2020[3][4]	Excludes the Impact of IFRS 16[1] For the 28 weeks ended April 12, 2020[4]
Selected Consolidated Cash Flow Statement Data									
Net cash flow from operating activities[a]	47	53	65	15	45	28	52	31	8
Net cash flow from investing activities[a]	(138)	(125)	(141)	(48)	(24)	—	(106)	(1,151)	(1,151)
Net cash flow from financing activities	65	83	69	12	(19)	(3)	48	1,405	1,428
Closing cash and cash equivalents . . .	4	16	9	(5)	10	—	10	294	294

(a) We have restated net cash flow from operating activities and net cash flow from investing activities for the 28 weeks ended April 14, 2019 to reclassify a loan to Stonegate Holdings, the indirect parent company of the Parent, from net cash flow from operating activities to net cash flow from investing activities. The impact of the adjustment for the 28 weeks ended April 14, 2019 is an increase in net cash flow from operating activities (due to a decrease in "Changes in receivables") by £6 million and an increase in net cash outflow from investing activities ("Loan made to ultimate parent company") by £6 million. We expect to make the same adjustment for the 52 weeks ended September 29, 2019 when we prepare our annual report and consolidated financial statements as of and for the 52 weeks ended September 27, 2020 and, accordingly, we have reflected that adjustment in the table above.

(£ in millions, unless otherwise noted)	For the 52 weeks ended September 24, 2017	For the 53 weeks ended September 30, 2018	For the 52 weeks ended September 29, 2019	For the 16 weeks ended January 20, 2019	Excludes the Impact of IFRS 16[1] For the 16 weeks ended January 19, 2020	Excludes the Impact of IFRS 16[1] For the 52 weeks ended January 19, 2020	For the 28 weeks ended April 14, 2019	Excludes the Impact of IFRS 16[1] For the 28 weeks ended April 12, 2020
Certain Non-IFRS Financial Information								
Stonegate Group Adjusted EBITDA[4][5]	103	112	134	39	46	141	68	58
Stonegate Group Adjusted EBITDA Margin[4][6]	14.8%	14.7%	15.7%	15.1%	16.5%	16.1%	15.0%	12.8%
Combined Group Adjusted EBITDA (excluding the impact of IFRS 16)[7]								164
Stonegate Group Capital Expenditure[8] ...	149	136	140	48	25	117	103	1,318
Stonegate Group Cash Conversion[9]	66.5%	67.2%	72.8%	64.1%	71.7%	75.2%	75.0%	62.1%

(£ in millions, unless otherwise noted)	For the 52 weeks ended January 19, 2020
Certain Other Non-IFRS Financial Information	
Stonegate Group Adjusted EBITDAR (excluding the impact of IFRS 16)[10]	205
Pro Forma Adjusted EBITDA (excluding the impact of IFRS 16)[11]	404
Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS 16)[12]	494
Pro Forma Adjusted EBITDA Including Synergies Margin (excluding the impact of IFRS 16)[13]	30.9%
Pro Forma Adjusted EBITDAR Including Synergies (excluding the impact of IFRS 16)[14]	579

	For the 52 weeks ended September 24, 2017	For the 53 weeks ended September 30, 2018	For the 52 weeks ended September 29, 2019	For the 16 weeks ended January 19, 2020	For the 52 weeks ended January 19, 2020
Stonegate Group Operating Information					
Stonegate Group Drink Sales Growth (Like for Like)[15]	3.1%	6.0%	2.1%	3.6%	2.0%
Stonegate Group Food Sales Growth (Like for Like)[15]	(2.3)%	0.8%	(0.5)%	1.1%	(0.4)%
Stonegate Group Revenue Growth (Like for Like)[15]	2.0%	4.7%	1.7%[16]	3.3%	1.7%
Stonegate Group Pub Profit Growth (Like for Like)[15]	2.5%	7.4%	4.8%	12.9%	6.6%
Stonegate Group Gross Margin Growth (Like for Like)[15]	2.6%	4.9%	3.5%	5.1%	3.6%
Stonegate Group Gross Margin for Drinks (Ongoing)[17]	73.5%	73.7%	74.8%	75.5%	75.0%
Stonegate Group Gross Margin for Food (Ongoing)[17]	64.9%	65.6%	68.1%	72.0%	70.9%
Stonegate Group Total Gross Margin (Ongoing)[17]	72.0%	72.2%	73.3%	74.8%	74.2%

	For the 156 weeks ended September 24, 2017	For the 156 weeks ended September 30, 2018	For the 156 weeks ended September 29, 2019	For the 156 weeks ended January 19, 2020
Stonegate Group Return on Investment[18]	35.4%	35.3%	35.7%	35.9%

	Number of Sites as of April 12, 2020
Publican Partnership Pubs	3,284
Stonegate Group's Managed Pubs	761
Ei Group's Managed Pubs	528
Bermondsey Pub Company	*67*
Craft Union Pub Company	*385*
Managed Investments	*76*
Commercial Property Assets	159
Closed sites[19]	17
Total Sites[20]	**4,749**
of which, Unique Group Pubs	*1,877*
Public Partnership Pubs	*1,562*
Managed Pubs	*235*
Commercial Property Assets	*74*
Closed Sites[19]	*6*

The adjusted information presented below, which is designed to present a view of certain select metrics after giving effect to the Transaction Financing and £50 million of equity contribution by TDR Capital in July 2020, and the application of the proceeds therefrom, has been derived as of and for the 52 weeks ended January 19, 2020 rather than as of and for the 52 weeks ended April 12, 2020, which is the most recent twelve month period presented in this Offering Memorandum. We believe that these metrics as of and for the 52 weeks ended January 19, 2020 more accurately represent our operating and financial performance in a steady state of business. Investors should be cautioned that these metrics as of and for the 52 weeks ended April 12, 2020 would have been significantly different. See "Summary—Recent Developments—Liquidity Update" for a description of our current liquidity position and our liquidity profile between March 30, 2020 and July 3, 2020, and see "Capitalization" for our debt and cash positions as of April 12, 2020.

(£ in millions, unless otherwise noted)	Excluding the impact of IFRS 16, as applicable — As of and for the 52 weeks ended January 19, 2020
Adjusted Information	
Adjusted Net Debt(21)	2,805
Secured First Lien Adjusted Net Debt(21)	*1,834*
Unique Group Adjusted Net Debt(21)	*572*
Adjusted Net Debt less Unique Group Adjusted Net Debt(21)	2,234
Adjusted Cash Interest Expense(22)	238
Ratio of Adjusted Net Debt to Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS 16)	5.7x
Ratio of Secured First Lien Adjusted Net Debt to Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS 16) less Unique(23)	4.9x
Ratio of Adjusted Net Debt less Unique Group Adjusted Net Debt to Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS 16) less Unique(23)	6.0x
Ratio of Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS 16) to Adjusted Cash Interest Expense	2.1x
Ratio of Adjusted Net Debt to Pro Forma Adjusted EBITDAR Including Synergies (excluding the impact of IFRS 16)	4.8x
Combined LTV Ratio(24)	69%
Unique Group LTV Ratio(25)	37%
Combined LTV Ratio excluding Unique(26)	88%

(1) We have discussed below the impact of IFRS 16 on our consolidated income statement, consolidated balance sheet and consolidated cash flow statement:

As of and for the 16 weeks ended January 19, 2020

- The net impact of IFRS 16 on our consolidated income statement for the 16 weeks ended January 19, 2020 was £3 million. This included a £13 million increase in depreciation and amortization expense due to additional depreciation charges and a £9 million increase in finance cost due to additional interest expense on lease liabilities, offset by a £19 million decrease in operating cost due to the elimination of our operating lease expense as operating cost.
- The impact of IFRS 16 on our consolidated balance sheet data as of January 19, 2020 consisted of:

(i) a net increase of £533 million in non-current assets due to an increase of £677 million in property, plant and equipment pursuant to the recognition of a right of use asset, offset by a decrease of £144 million in operating leases previously recognized as other intangibles pursuant to their recognition as a right of use asset in property, plant and equipment;

(ii) a net decrease of £9 million in current assets due to a decrease of £9 million in trade and other receivables pursuant to the elimination of rent prepayment under operating leases as trade and other receivables;

(iii) a net increase of £24 million in current liabilities due to an increase of £33 million in current borrowings pursuant to recognition of current lease liabilities as current borrowing offset by a decrease of £9 million in trade and other payables due to, among others things, release of onerous lease provisions and deferred income previously recognized with regard to leasehold rent and elimination of rent accruals in relation to operating leases; and

(iv) an increase of £502 million in non-current liabilities due to an increase of £509 million in non-current borrowings pursuant to the recognition of non-current lease liabilities as non-current borrowing and a decrease of £7 million in provisions due to the release of onerous lease provision previously recognized with regard to leasehold rents.

- The impact of IFRS 16 on our consolidated cash flows statement for the 16 weeks ended January 19, 2020 consisted of a reclassification of £17 million of cash flow from operating activities as cash flow from financing activities, representing the principal portion of our operating lease payments.

As of and for the 28 weeks ended April 12, 2020

- The net impact of IFRS 16 on our consolidated income statement for the 28 weeks ended April 12, 2020 was £15 million. This included a £33 million increase in depreciation and amortization expenses due to additional depreciation charges and a £17 million increase in finance cost due to additional interest expense on lease liabilities, offset by a £35 million decrease in operating cost due to the elimination of our operating lease expense as operating cost.

- The impact of IFRS 16 on our consolidated balance sheet data as of April 12, 2020 consisted of:

(i) a net increase of £717 million in non-current assets due to an increase of (a) £881 million in property, plant and equipment pursuant to the recognition of a right of use asset (including a reclassification of operating leases with a net book value of £186 million), (b) £21 million in investment property due to the recognition of a right of use asset in relation to operating leases where the asset is categorized as an investment property and (c) £7 million in trade and other receivables due to an increase in financial assets, offset by a decrease of (a) £183 million in operating leases previously recognized as other intangibles pursuant to their recognition as a right of use asset in property, plant and equipment and (b) £10 million in goodwill due to a temporary difference created through IFRS 16;

(ii) a net decrease of £9 million in current assets due to a decrease of £9 million in trade and other receivables pursuant to the elimination of rent prepayment under operating leases as trade and other receivables;

(iii) a net increase of £23 million in current liabilities due to an increase of £55 million in current borrowings pursuant to recognition of current lease liabilities as current borrowing, partially offset by a decrease of £32 million in trade and other payables due to, among others things, release of onerous lease provisions and deferred income previously recognized with regard to leasehold rent and elimination of rent accruals in relation to operating leases; and

(iv) an increase of £699 million in non-current liabilities due to an increase of £721 million in non-current borrowings pursuant to the recognition of non-current lease liabilities as non-current borrowing, partially offset by decrease of £9 million in deferred tax liabilities due to an increase in future tax allowance created through IFRS 16 and £13 million in provisions due to the release of onerous lease provision previously recognized with regard to leasehold rents.

- The impact of IFRS 16 on our consolidated cash flows statement for the 28 weeks ended April 12, 2020, consisted of a reclassification of £23 million of cash flow from operating activities as cash flow from financing activities, representing the principal portion of our operating lease payments.

See "Stonegate Group Management's Discussion and Analysis of Financial Condition and Results of Operation—Factors Affecting the Comparability of our Results of Operations—Changes in Accounting Policy."

(2) Set forth below is Stonegate Group's consolidated historical income statement information for the 52 weeks ended January 19, 2020, which has been derived by adding the relevant item for the 52 weeks ended September 29, 2019 and for the 16 weeks ended January 19, 2020 (excluding the impact of IFRS 16), and subtracting the relevant item for the 16 weeks ended January 20, 2019:

				Excludes the Impact of IFRS 16	
(£ in millions)	**For the 52 weeks ended September 29, 2019**	**For the 16 weeks ended January 20, 2019**	**For the 16 weeks ended January 19, 2020**	**For the 16 weeks ended January 19, 2020**	**For the 52 weeks ended January 19, 2020**
Revenue	**853**	**258**	**279**	**279**	**874**
Operating costs	(752)	(239)	(217)	(236)	(749)
Operating profit/(loss) before depreciation, amortization, impairment, movement in valuation of the estate and loss on disposal of non-current assets	**100**	**19**	**62**	**43**	**124**
Depreciation, amortization and impairment	(79)	(21)	(37)	(24)	(82)
Profit/(loss) on sale of non-current assets	(3)	(0.3)	(0.4)	(0.4)	(3)
Operating profit/(loss)	**19**	**(2)**	**24**	**18**	**39**
Finance income	0.1	0.01	0.001	0.001	0.1
Finance costs	(44)	(13)	(22)	(13)	(44)
Profit/(loss) before taxation	**(25)**	**(15)**	**2**	**5**	**(5)**
UK income tax credit/(charge)	1	(0.6)	(0.01)	(0.01)	2
Profit/(loss) for period	**(24)**	**(16)**	**2**	**5**	**(3)**

(3) Includes the impact of IFRS 16.

(4) Stonegate Group's historical consolidated financial information includes the financial information of Ei Group from and including March 3, 2020, the date on which the Transaction was completed. For the financial periods preceding March 3, 2020, Stonegate Group's historical consolidated financial information does not include the financial information of Ei Group, which are discussed elsewhere in this Offering Memorandum. See "Ei Group Management's Discussion and Analysis of Financial Condition and Results of Operations." See also "Presentation of Financial and Other Information." Accordingly, Stonegate Group's historical consolidated financial information as of and for the 28 weeks ended April 12, 2020 may not be comparable to Stonegate Group's historical consolidated financial information as of and for the 28 weeks ended April 14, 2019.

(5) Stonegate Group Pre-adjusted EBITDA represents profit/(loss) for the period excluding UK income tax credit/(charge), finance income, finance costs, depreciation, amortization and impairment and (profit)/loss on disposal of non-current assets. Stonegate Group Adjusted EBITDA represents Stonegate Group Pre-adjusted EBITDA excluding Stonegate Group's acquisition costs, restructuring and integration costs, discretionary management bonus payments under our prior management incentive program, operational restructuring and redundancy costs, costs and credits related to onerous leases, discretionary management fees, pension-related costs relating to our defined benefit pension scheme, losses on disposed/non-trading sites and costs such as legal and professional fees relating to tax enquiries and our management incentive program, consultancy fees paid to the previous directors of Fever Bars, certain dilapidation and repair costs and costs related to lease assignments for expired leases, which, unless otherwise specified, is presented on a 52-week basis in the case of the 53 weeks ended September 30, 2018 to enhance comparability, by deducting the 53rd week's sales, less operating costs for this week, assumed to be at a consistent margin for the last period (last four weeks to September 30, 2018), less the wages for this week, assumed to be the wages as a consistent percentage of revenue for the last period, and less the variable operating expenses for this week, assumed to be one quarter of the last period costs. Key fixed costs, such as rents, business rates and salaries do not require adjustments because they are annual costs.

The following table provides a reconciliation of Stonegate Group Pre-adjusted EBITDA from profit/(loss) for the periods indicated and a reconciliation of Stonegate Group Adjusted EBITDA from Stonegate Group Pre-adjusted EBITDA:

						Excludes the Impact of IFRS 16			**Excludes the Impact of IFRS 16**
(£ in millions)	**For the 52 weeks ended September 24, 2017**	**For the 53 weeks ended September 30, 2018**	**For the 52 weeks ended September 29, 2019[(a)]**	**For the 16 weeks ended January 20, 2019[(a)]**	**For the 16 weeks ended January 19, 2020**	**For the 16 weeks ended January 19, 2020[(a)]**	**For the 28 weeks ended April 14, 2019**	**For the 28 weeks ended April 12, 2020**	**For the 28 weeks ended April 12, 2020**
Profit/(loss) for the period	(24)	(8)	(24)	(16)	2	5	(20)	(133)	(118)
UK income tax (credit)/charge	2	3	(1)	0.6	0.01	0.01	1	20	20
Finance income	(0.1)	(0.1)	(0.1)	(0.01)	(0.001)	(0.001)	—	—	—
Finance costs	48	34	44	13	22	13	24	69	52
Depreciation, amortization and impairment	51	61	79	21	37	24	39	94	61
Profit/(loss) on sale of non-current assets	5	7	3	0.3	0.4	0.4	—	—	—
Stonegate Group Pre-adjusted EBITDA	**82**	**99**	**100**	**19**	**62**	**43**	**44**	**50**	**15**
Acquisition costs[(b)]	6	4	3	1	0.3	0.3	2	35	35
Restructuring and integration costs[(c)]	4	2	6	1	1	1	3	3	3
Discretionary management bonus payments under our prior management incentive program[(d)]	—	—	16	15	—	—	15	—	—
Operational restructuring and redundancy costs[(e)]	0.4	3	—	—	—	—	—	1	1
Onerous leases[(f)]	6	(0.1)	(0.2)	—	—	—	—	—	—
Discretionary management fees[(g)]	2	2	2	1	1	1	1	1	1
Pension charges[(h)]	1	1	1	0.4	0.4	0.4	1	1	1
Losses on disposed/non-trading sites[(i)]	1	1	2	0.3	1	1	1	1	1

(£ in millions)	For the 52 weeks ended September 24, 2017	For the 53 weeks ended September 30, 2018	For the 52 weeks ended September 29, 2019(a)	For the 16 weeks ended January 20, 2019(a)	For the 16 weeks ended January 19, 2020	Excludes the Impact of IFRS 16 — For the 16 weeks ended January 19, 2020(a)	For the 28 weeks ended April 14, 2019	For the 28 weeks ended April 12, 2020	Excludes the Impact of IFRS 16 — For the 28 weeks ended April 12, 2020
Other costs(j)	2	3	4	1	1	1	1	1	1
Stonegate Group Adjusted EBITDA	**103**	**115**	**134**	**39**	**65**	**46**	**68**	**93**	**58**
Adjustments to a 52-week accounting period, as applicable(k)	—	(3)	—	—	—	—	—	—	—
Stonegate Group Adjusted EBITDA (on a 52-week basis for the year-end periods)	**103**	**112**	**134**	**39**	**65**	**46**	**68**	**93**	**58**

(a) Set forth below is a reconciliation of Stonegate Group Pre-adjusted EBITDA from profit/(loss) for the 52 weeks ended January 19, 2020 and a reconciliation of Stonegate Group Adjusted EBITDA from Stonegate Group Pre-adjusted EBITDA, which have been derived by adding the relevant item for the 52 weeks ended September 29, 2019 and for the 16 weeks ended January 19, 2020 (excluding the impact of IFRS 16), and subtracting the relevant item for the 16 weeks ended January 20, 2019:

(£ in millions)	For the 52 weeks ended September 29, 2019	For the 16 weeks ended January 20, 2019	For the 16 weeks ended January 19, 2020	Excludes the Impact of IFRS 16 — For the 16 weeks ended January 19, 2020	Excludes the Impact of IFRS 16 — For the 52 weeks ended January 19, 2020
Profit/(loss) for the period	(24)	(16)	2	5	(3)
UK income tax (credit)/ charge	(1)	0.6	0.01	0.01	(2)
Finance income	(0.1)	(0.01)	0.001	0.001	(0.1)
Finance costs	44	13	22	13	44
Depreciation, amortization and impairment	79	21	37	24	82
Profit/(loss) on sale of non-current assets	3	0.3	0.4	0.4	3
Stonegate Group Pre-adjusted EBITDA	**100**	**19**	**62**	**43**	**124**
Acquisition costs(b)	3	1	0.3	0.3	3
Restructuring and integration costs(c)	6	1	1	1	5
Discretionary management bonus payments under our prior management incentive program(d)	16	15	—	—	0.2
Operational restructuring and redundancy costs(e)	—	—	—	—	—
Onerous leases(f)	(0.2)	—	—	—	(0.2)
Discretionary management fees(g)	2	1	1	1	2
Pension charges(h)	1	0.4	0.4	0.4	1
Losses on disposed/non-trading sites(i)	2	0.3	1	1	2
Other costs(j)	4	1	1	1	4
Stonegate Group Adjusted EBITDA	**134**	**39**	**65**	**46**	**141**
Adjustments to a 52-week accounting period, as applicable(k)	—	—	—	—	—
Stonegate Group Adjusted EBITDA (on a 52-week basis for the year-end periods)	**134**	**39**	**65**	**46**	**141**

(b) Acquisition costs represent expenses that we incurred primarily in connection with (i) the Transaction during the 28 weeks ended April 12, 2020, (ii) the acquisition of Fever Bars, 11 pubs pursuant to the First Novus Acquisitions and six pubs pursuant to the Second Novus Acquisitions during the 52 weeks ended September 29, 2019, (iii) the acquisition of 11 pubs pursuant to the First Novus Acquisitions during the 16 weeks ended January 20, 2019, (iv) the acquisition of Be At One and four pubs pursuant to the First Novus Acquisitions during the 53 weeks ended September 30, 2018 and (v) the acquisition of Intertain, Large Bars, Bar Holdings Limited and certain pubs from JDW, Faucet Inns Sellers, Punch Taverns and Ei Group plc during the 52 weeks ended September 24, 2017. Acquisition costs also include legal and professional fees and stamp duties incurred in connection with these acquisitions.

(c) Represents (i) certain restructuring and integration costs that we incurred during the 28 weeks ended April 12, 2020 in relation to the Transaction; (ii) certain restructuring and integration costs that we incurred during the 52 weeks ended September 29, 2019 following our acquisition of Fever Bars, 11 pubs pursuant to the First Novus Acquisitions and six pubs pursuant to the Second Novus Acquisitions; (iii) certain restructuring and integration costs that we incurred during the 16 weeks ended January 20, 2019 following our acquisition of 11 pubs pursuant to the First Novus Acquisitions; (iv) certain restructuring and integration costs that we incurred during the 53 weeks ended September 30, 2018 following the acquisition of Be At One and four pubs pursuant to the First Novus Acquisitions and (v) certain restructuring and integration costs that we incurred during the 52 weeks ended September 24, 2017 following the Intertain Acquisition, the Large Bars Acquisition and the Bar Holdings Acquisition. We believe that the costs associated with combining and streamlining of our operations and the integration we choose to undertake are front-end costs. Such costs are not expected to recur once those pubs are fully optimized.

(d) Represents discretionary management bonuses paid to certain of our senior managers under our prior management incentive program. This bonus payment was financed by equity contributions made by Midco. See "Management—Management Incentive Program."

(e) Represents (i) costs made in relation to the integration of pubs acquired by Stonegate Group during the periods presented and not otherwise accounted for under restructuring and integration costs and (ii) redundancy payments made to certain key management personnel following operational restructurings undertaken as part of our process of integrating some of our acquisitions.

(f) Relates to charges and credits recognized by Stonegate Group during the period due to re-evaluation of our onerous lease provision.

(g) Represents the payment by Stonegate Group to TDR Capital of certain management fees. See "Principal Shareholders" and "Certain Relationships and Related Party Transactions—Management fees and Other Transactions with TDR Capital."

(h) Represents historic pension contributions made by Stonegate Group not previously written off as well as certain pension administration costs.

(i) Represents losses generated at sites that were disposed of or closed by Stonegate Group in the ordinary course during the periods presented, as if such disposals or site closures occurred at the beginning of the applicable period.

(j) Represents, among other things, legal and professional fees relating to tax enquiries, including in relation to the cost of uniforms for our employees and our management incentive program, consultancy fees paid to the previous directors of Fever Bars, certain dilapidation and repair costs and costs related to lease assignments for expired leases.

(k) Represents a presentation on a 52-week basis of Stonegate Group Adjusted EBITDA for the 53 weeks ended September 30, 2018, by deducting the 53rd week's sales, less operating costs for this week, assumed to be at a consistent margin for the last period (last four weeks to September 30, 2018), less the wages for this week, assumed to be the wages as a consistent percentage of revenue for the last period, and less the variable operating expenses for this week, assumed to be one quarter of the last period costs. Key fixed costs, such as rents, business rates and salaries do not require adjustments because they are annual costs.

Stonegate Group Pre-adjusted EBITDA and Stonegate Group Adjusted EBITDA are non-IFRS measures that have important limitations as analytical tools. You should not consider them in isolation or as substitutes for analysis of our results as reported under IFRS. See "Certain Definitions" and "Presentation of Financial and Other Information."

(6) Stonegate Group Adjusted EBITDA Margin represents Stonegate Group Adjusted EBITDA divided by Stonegate Group's historical revenue. For purposes of this calculation, we have used Stonegate Group's historical revenue and Stonegate Group Adjusted EBITDA, in each case, for a 52-week period in the case of the 53 weeks ended September 30, 2018 to enhance comparability. To derive Stonegate Group's revenue for a 52-week period in the case of the 53 weeks ended September 30, 2018, we have deducted revenue for the last week of the 53 weeks ended September 30, 2018, which was £15 million. We have derived Stonegate Group Adjusted EBITDA as set out in footnote. Stonegate Group Adjusted EBITDA Margin is a non-IFRS measure that has important limitations as an analytical tool. You should not consider it in isolation or as a substitute for analysis of our results as reported under IFRS. See "Certain Definitions" and "Presentation of Financial and Other Information."

(7) Combined Group Adjusted EBITDA (excluding the impact of IFRS 16) represents the sum of Stonegate Group Adjusted EBITDA (excluding the impact of IFRS 16) for the 28 weeks ended April 12, 2020, Ei Group Underlying EBITDA (excluding the impact of IFRS 16) for the 13 weeks ended December 28, 2019 and Ei Group Underlying EBITDA (excluding the impact of IFRS 16) for the period from December 29, 2019 to March 2, 2020. The following table provides a reconciliation of Combined Group Adjusted EBITDA (excluding the impact of IFRS 16) for the 28 weeks ended April 12, 2020 from Stonegate Group Adjusted EBITDA (excluding the impact of IFRS 16) for the 28 weeks ended April 12, 2020:

(£ in millions)	**Excludes the Impact of IFRS 16**
Stonegate Group Adjusted EBITDA (excluding the impact of IFRS 16) for the 28 weeks ended April 12, 2020[a]	58
Ei Group Underlying EBITDA (excluding the impact of IFRS 16):	
For the 13 weeks ended December 28, 2019[b]	*69*
For the period from December 29, 2019 to March 2, 2020[c]	*37*
Combined Group Adjusted EBITDA (excluding the impact of IFRS 16) for the 28 weeks ended April 12, 2020	**164**

(a) Stonegate Group Adjusted EBITDA (excluding the impact of IFRS 16) for the 28 weeks ended April 12, 2020 represents Stonegate Group Pre-adjusted EBITDA excluding Stonegate Group's acquisition, restructuring and integration costs, operational restructuring and redundancy costs, discretionary management fees, pension-related costs relating to defined benefit pension scheme, losses on disposed/non-trading sites and costs such as legal and professional fees relating to tax enquiries, including in relation to the cost of uniforms for our employees and our management incentive program, legal proceedings, certain dilapidation and repair costs, one-off utility payments and costs related to lease assignments incurred during this period, and excluding the impact of IFRS 16. The Transaction was completed on March 3, 2020. Accordingly, Stonegate Group Adjusted EBITDA (excluding the impact of IFRS 16) for the 28 weeks ended April 12, 2020 reflects the Ei Group Underlying EBITDA (excluding the impact of IFRS 16) for the period from March 3, 2020 to April 12, 2020.

(b) Ei Group Underlying EBITDA (excluding the impact of IFRS 16) of £69 million for the 13 weeks ended December 28, 2019 represents Ei Group EBITDA excluding non-underlying items and, excluding the impact of IFRS 16. See "Ei Group's Summary Historical Financial and Other Information—Segment and Other Financial Information."

(c) Ei Group Underlying EBITDA (excluding the impact of IFRS 16) of £37 million for the period from December 29, 2019 to March 2, 2020 represents Ei Group EBITDA for this period excluding non-underlying items and, excluding the impact of IFRS 16. This information has been derived from Ei Group's unaudited management accounts for this period. The following table provides a reconciliation of Ei Group Operating Profit to Ei Group EBITDA (excluding the impact of IFRS 16) and to Ei Group Underlying EBITDA (excluding the impact of IFRS 16):

	Excludes the Impact of IFRS 16
(£ in millions)	**For the period from December 29, 2019 to March 2, 2020**
Ei Group operating profit	9
Depreciation and amortization	4
Ei Group EBITDA	**13**
Non-underlying operating costs before depreciation and amortization[(i)]	24
Ei Group Underlying EBITDA	**37**

(i) Non-underlying operating costs before depreciation and amortization comprise operating costs that Ei Group regards as one-off operating costs as well as other adjusting items. Ei Group applies judgment in identifying the significant items of income and expense that are recognized as non-underlying to provide an indication of Ei Group's underlying business performance. Non-underlying operating costs before depreciation and amortization included acquisition cost of £23 million in relation to the Transaction, representing £15 million of professional fees and £8 million of accelerated share-based payments and redundancy costs, and assignment premiums of £1 million in connection with the strategic realignment of properties (i.e., to take the assignment of a lease or to break a lease at any point other than at renewal).

(8) Stonegate Group Capital Expenditure is an IFRS metric and represents the sum of our purchase of property, plant and equipment and payments to acquire trading sites for the periods presented, which, for operational purposes, we categorize as Stonegate Group Acquisition Capital Expenditure, Stonegate Group Investment Capital Expenditure and Stonegate Group Maintenance Capital Expenditure.

(9) Stonegate Group Cash Conversion represents Stonegate Group Adjusted EBITDA (for a 52-week period in the case of the 53 weeks ended September 30, 2018) less Stonegate Group Maintenance Capital Expenditure, divided by Stonegate Group Adjusted EBITDA (for a 52-week period in the case of the 53 weeks ended September 30, 2018), as shown below.

					Excludes the Impact of IFRS 16, as applicable
(£ in millions)	**For the 52 weeks ended September 24, 2017**	**For the 53 weeks ended September 30, 2018**	**For the 52 weeks ended September 29, 2019**	**For the 16 weeks ended January 20, 2019**	**For the 16 weeks ended January 19, 2020**
Stonegate Group Adjusted EBITDA	103	112	134	39	46
Stonegate Group Maintenance Capital Expenditure	(35)	(37)	(36)	(14)	(13)
Stonegate Group Adjusted EBITDA less Stonegate Group Maintenance Capital Expenditure	68	75	97	25	33
Stonegate Group Cash Conversion	66.5%	67.2%	72.8%	64.1%	71.7%

(10) Stonegate Group Adjusted EBITDAR represents Stonegate Group Adjusted EBITDA plus Stonegate Group's operating lease rental expense. The following table provides a reconciliation of Stonegate Group Adjusted EBITDAR from Stonegate Group Adjusted EBITDA for the 52 weeks ended January 19, 2020:

	For the 52 weeks ended January 19, 2020
	(£ in millions)
Stonegate Group Adjusted EBITDA (excluding the impact of IFRS 16)	**141**
Stonegate Group's operating lease rental expense	**64**
Stonegate Group Adjusted EBITDAR (excluding the impact of IFRS 16)	**205**

(11) Pro Forma Adjusted EBITDA (excluding the impact of IFRS 16) represents the sum of Stonegate Group Adjusted EBITDA for the 52 weeks ended January 19, 2020 and Ei Group Underlying EBITDA for the 52 weeks ended December 28, 2019 as adjusted for the disposal of 355 Ei Group Commercial Properties assets and 124 assets in the ordinary course during this period, and, in each case, excluding the impact of IFRS 16. The following table provides a reconciliation of Pro Forma Adjusted EBITDA (excluding the impact of IFRS 16) from Stonegate Group Adjusted EBITDA and Ei Group Underlying EBITDA:

(£ in millions)	**For the 52 weeks ended January 19, 2020**
Stonegate Group Adjusted EBITDA (excluding the impact of IFRS 16)[a]	141
Ei Group Underlying EBITDA (excluding the impact of IFRS 16)[b]	270
less Ei Group Underlying EBITDA contributed by the 355 Ei Group Commercial Properties assets and 124 assets in the ordinary course which have been disposed of[b]	(7)
Pro Forma Adjusted EBITDA (excluding the impact of IFRS 16)	**404**

(a) Stonegate Group Adjusted EBITDA for the 52 weeks ended January 19, 2020 represents Stonegate Group Pre-adjusted EBITDA excluding acquisition costs, restructuring and integration costs, discretionary management bonus payments under our prior management incentive program, operational restructuring and redundancy costs, costs and credits related to onerous leases, discretionary management fees, pension-related costs relating to our defined benefit pension scheme, losses on disposed/non-trading sites and costs such as legal and professional fees relating to tax enquiries and our management incentive program, consultancy fees paid to the previous directors of Fever Bars, certain dilapidation and repair costs and costs related to lease assignments for expired leases, and, in addition, excluding the impact of IFRS 16. See "—Certain Non-IFRS Financial Information."

(b) Ei Group Underlying EBITDA (excluding the impact of IFRS 16) of £270 million for the 52 weeks ended December 28, 2019 represents Ei Group EBITDA excluding non-underlying items and, in addition, excludes the impact of IFRS 16. The Ei Group Underlying EBITDA (excluding the impact of IFRS 16) of £270 million for the 52 weeks ended December 28, 2019 includes the Ei Group Underlying EBITDA contributed by (i) the 355 assets under the Ei Group Commercial Properties segment and (ii) and 124 assets in the ordinary course that were disposed of during this period. These disposed assets contributed £6 million and £1 million, respectively, to Ei Group Underlying EBITDA (excluding the impact of IFRS 16) for the 52 weeks ended December 28, 2019. Accordingly, adjusting for these disposals, Ei Group Underlying EBITDA (excluding the impact of IFRS 16) for the 52 weeks ended December 28, 2019 from Ei Group's retained business was £263 million. See "Ei Group's Summary Historical Financial and Other Information—Segment and Other Financial Information."

(12) Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS 16) represents Pro Forma Adjusted EBITDA (excluding the impact of IFRS 16) adjusted to give effect to: (i) certain estimated cost savings in connection with the Transaction; (ii) certain estimated cost savings in connection with the Be At One Acquisition and the Fever Bars Acquisition; (iii) adjustments made to give 52-week effect to the incremental site EBITDA generated post-investment at certain of our pubs in which we have invested during the 52 weeks ended January 19, 2020, as if such investments had occurred on January 21, 2019; (iv) the site EBITDA of certain pubs in which we have invested during the 52 weeks ended January 19, 2020 for the periods in which those pubs were closed for renovation or refurbishment; and (v) the aggregate incremental costs associated with increases in National Living Wage and National Minimum Wage, and excluding the impact of IFRS 16:

(£ in millions)	**For the 52 weeks ended January 19, 2020**
Pro Forma Adjusted EBITDA (excluding the impact of IFRS 16)	**404**
Estimated cost savings from the Transaction[(a)]	80
Estimated cost savings from the Be At One Acquisition and Fever Bars Acquisition[(b)]	1
Annualized incremental site EBITDA of certain pubs post-investment[(c)]	11
Site EBITDA of invested pubs during period of renovation or refurbishment[(d)]	5
Annualized costs associated with National Living Wage and National Minimum Wage[(e)]	(7)
Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS 16)[(f)]	**494**

(a) Represents the aggregate cost savings that we expect to realize in connection with the Transaction, which we have estimated relative to costs incurred by Stonegate Group and Ei Group on a combined basis for the financial year 2019. In connection with the Transaction, we believe that there are potential opportunities for cost savings through integrating operating models and applying best practices across Stonegate Group and Ei Group, and by gaining increased scale through combined operations. Our estimated costs savings reflect estimated procurement savings, savings resulting from optimizing site operations and savings from extracting possible head office synergies. We estimate that we will realize approximately £32 million of these cost savings, which represents approximately 40% of our total expected cost savings, by December 2020. We expect to realize the remaining cost savings by December 2021.

We expect to derive a total procurement savings of approximately £43 million primarily by migrating to Ei Group's more favorable pricing structures in relation to certain drink supply contracts and by utilizing the scale of the combined operations to renegotiate drinks and food suppliers' pricing terms. Based on our current estimates, we expect to achieve approximately £11 million of these procurement savings by December 2020, and the remaining £32 million by December 2021.

We expect to derive further savings from optimizing site operations by, among other things, (i) converting a number of Stonegate Group pubs from their fully-managed format to Ei Group's Craft Union division of operator-managed pubs, (ii) applying Stonegate Group's best practices across Ei Group's Bermondsey pub formats with a view to reducing operating costs at those sites, (iii) migrating to Ei Group's more favorable pricing structures in relation to certain media contracts and (iv) reducing repair and maintenance costs across Ei Group's estate by implementing Stonegate Group's tried and tested cost control measures. Based on our management's initial assessment, which is subject to a more detailed review that we expect to complete within six months from the Transaction, we expect to realize head office synergies by, among other things, (i) eliminating costs related to public company operations, (ii) reducing overall head office property costs, IT integration of certain back office functions and potentially reducing the combined group's headcount where there is duplication of roles or where the function was required to support Ei's status as a public listed company and (iii) removing the board of directors and senior management of Ei Group, including the chairman of the board of directors, the non-executive directors, the chief executive officer and the chief financial officer, and eliminating the remuneration payable to them and certain other senior management and head office employees who may not continue their employment in the combined group, which we believe will result in aggregate estimated costs saving of approximately £7 million. Based on our current estimates, we expect to achieve approximately £37 million of cost savings relating to head office and site operation synergies. We estimate that we will realize approximately £22 million of these savings by December 2020, and the remaining £15 million by December 2021.

We estimate that we will incur one-off aggregate costs of approximately £25 million by December 2021 to realize these cost savings.

Any cost savings that we believe we can realize in relation to the Transaction are based on our past experience and certain assumptions that we believe are reasonable. This information is inherently subject to risks and uncertainties. It may not give an accurate or complete picture of the financial condition or results of operations for the period presented and may not be comparable to our historical consolidated financial statements or the other financial information included in this Offering Memorandum and should be treated with caution when making an investment decision. See "Risk Factors—Risks Related to Our Business—Our management may not be able to successfully implement our strategic and financial objectives."

(b) Represent the aggregate cost savings that we had not realized during the 52 weeks ended January 19, 2020 in connection with the Fever Bars Acquisition and the Be At One Acquisition, consisting of incremental cost savings relating to the application of the prices that we are currently offered by our drinks suppliers to the drinks supply purchases of Be At One and Fever Bars. Any run rate adjustments and aggregate cost savings that we believe we can make in relation to the Be At One Acquisition and Fever Bars Acquisition are based on our past experience in similar circumstances and certain assumptions that we believe are reasonable. They involve, among other things, conforming certain performance measures to our historical performance and may be affected by seasonality or unusual effects. These effects may not recur in future months to the same degree or at all. This information is inherently subject to risks and uncertainties. It may not give an accurate or complete picture of the financial condition or results of operations of the transaction for the period presented and may not be comparable to our historical consolidated financial statements or the other financial information included in this Offering Memorandum and should be treated with caution when making an investment decision.

(c) Represents adjustments made to give 52-week effect to the incremental site EBITDA generated post-investment at certain of our pubs in which we have invested during the 52 weeks ended January 19, 2020, as if such investments had occurred on January 20, 2019. This adjustment does not reflect the actual site EBITDA that a pub would have generated during the period that it was closed down for renovation or refurbishment. All capital expenditure and related expenses pertaining to these investments have been recognized in the period presented.

(d) Represents our estimate of the aggregate site EBITDA that would have been generated at our pubs that were closed down for renovation or refurbishment during the 52 weeks ended January 19, 2020. For each pub that was closed down during the 52 weeks ended January 19, 2020, we have estimated its site EBITDA for the period of such closure based on site EBITDA that it generated during the comparable period in the previous year.

(e) Represents our estimate of the net impact of the aggregate incremental costs associated with the increases in the National Living Wage and the National Minimum Wage. For this calculation, we have applied the National Living Wage and National Minimum Wage rates that came into effect on April 1, 2019 for the period between January 20, 2020 to April 1, 2020 and the National Living Wage and National Minimum Wage rates that has come into effect on April 1, 2020 for the period between April 1, 2020 to January 17, 2021, in each case, assuming that we had the same number of employees as for the 52 weeks ended January 19, 2020.

(f) Includes the pre-adjusted site EBITDA of 42 sites, which we have undertaken to dispose of to third parties to satisfy the concerns of the CMA in connection with the Transaction. For the financial year 2019, these sites had an aggregate pre-adjusted site EBITDA of approximately £4 million. See "—Transaction."

This Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS 16) has not been prepared in accordance with Regulation S-X under the Securities Act, and does not purport to represent what our results of operations would have been, nor do they purport to project the results of operations for any future period. For the purposes of the unaudited Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS 16) included herein and giving effect to the Transaction, we have made various assumptions. The adjustments and assumptions we have made are preliminary and subject to change. See "Presentation of Financial and Other Information." See also "Risk Factors—Risks Related to Our Business—The adjustments to our Pro Forma Adjusted EBITDA (excluding the impact of IFRS 16) to derive our resulting Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS 16) should be treated with caution when making an investment decision."

(13) Pro Forma Adjusted EBITDA Including Synergies Margin (excluding the impact of IFRS 16) represents the Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS 16) divided by £1,598 million, representing the sum of Stonegate Group's revenue for the 52 weeks ended January 19, 2020 (£874 million) and Ei Group's revenue for the 52 weeks ended December 28, 2019 (£724 million). Pro Forma Adjusted EBITDA Including Synergies Margin (excluding the impact of IFRS 16) is a non-IFRS measure that has important limitations as an analytical tool. You should not consider it in isolation or as a substitute for analysis of our results as reported under IFRS. See "Presentation of Financial and Other Information—Non-IFRS Financial Information" and "Presentation of Financial and Other Information—Pro Forma Combined Financial Information."

(14) Pro Forma Adjusted EBITDAR Including Synergies (excluding the impact of IFRS 16) represents Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS 16) before operating lease rental expense for Stonegate Group, Ei Group and certain recent acquisitions or, where applicable, rent payments in relation to them, as follows:

(£ in millions)	**For the 52 weeks ended January 19, 2020**
Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS 16)	**494**
Stonegate Group's operating lease rental expense (excluding the impact of IFRS 16)[a]	64
Ei Group's operating lease rental expense (excluding the impact of IFRS 16)[b]	21
Pro Forma Adjusted EBITDAR Including Synergies (excluding the impact of IFRS 16)	**579**

(a) Represents the operating lease rental expense for Stonegate Group for the 52 weeks ended January 19, 2020, including operating lease rental expense in relation to the 32 pubs acquired pursuant to the Fever Bars Acquisition from the date of their acquisition on January 22, 2019 and the six pubs acquired pursuant to the Second Novus Acquisitions from their respective dates of acquisition, and, excluding the impact of IFRS 16.

(b) Represents the operating lease rental expense of Ei Group for the 52 weeks ended December 28, 2019, excluding the impact of IFRS 16.

(15) We define Stonegate Group's like-for-like metrics presented above, as follows:

- Stonegate Group Drink Sales Growth (Like for Like) represents, for the relevant period, Stonegate Group's aggregate change in revenue from drinks sales compared to the previous comparable period made at all pubs open and operated in either Stonegate Group's branded or unbranded group throughout the current and previous period;

- Stonegate Group Food Sales Growth (Like for Like) represents, for the relevant period, Stonegate Group's aggregate change in revenue from food sales compared to the previous comparable period made at all pubs open and operated in either Stonegate Group's branded or unbranded group throughout the current and previous period;
- Stonegate Group Revenue Growth (Like for Like) represents, for the relevant period, Stonegate Group's aggregate change in revenue compared to the previous comparable period made at all pubs open and operated in either Stonegate Group's branded or unbranded group throughout the current and previous period;
- Stonegate Group Pub Profit Growth (Like for Like) represents, for the relevant period, the aggregate change in the Stonegate Group Pre-adjusted EBITDA (less Stonegate Group overhead costs) compared to the previous comparable period made at all pubs open and operated in either Stonegate Group's branded or unbranded group throughout the current and previous period; and
- Stonegate Group Gross Margin Growth (Like for Like) represents, for the relevant period, Stonegate Group's change in total gross margin (calculated as Stonegate Group's total revenue minus total operating costs divided by total revenue) compared to the previous comparable period relating to all pubs open and operated in either Stonegate Group's branded or unbranded group throughout the current and previous comparable period.

For Stonegate Group Drink Sales Growth (Like for Like), Stonegate Group Food Sales Growth (Like for Like), Stonegate Group Revenue Sales Growth (Like for Like), Stonegate Group Pub Profit Growth (Like for Like) and Stonegate Group Gross Margin Growth (Like for Like) for the 53 weeks ended September 30, 2018, we have presented like for like sales, Stonegate Group Pre-adjusted EBITDA and total gross margin, as applicable, for a 52-week period rather than a 53-week period to enhance comparability. Accordingly, we have calculated like for like sales, Stonegate Group Pre-adjusted EBITDA and total gross margin as applicable, for this period by taking into account, in each case, the like for like sales, Stonegate Group Pre-adjusted EBITDA and total gross margin, as applicable, for the first 52 weeks' to enhance comparability. These metrics for the 28 weeks ended April 12, 2020 are presented under "Stonegate Group Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Performance Measures—Like for Like Growth." For more information concerning how these metrics are calculated, see "Presentation of Financial and Other Information—Non-IFRS Financial Information."

(16) Stonegate Group Revenue Growth (Like for Like) for the 52 weeks ended September 29, 2019 would have been 2.9%, if Stonegate Group's revenue for the comparable period was adjusted to exclude (i) higher sales due to the Football World Cup during June and July 2018 and (ii) a decline in sales due to severe cold weather conditions experienced across the United Kingdom during parts of February and March 2018.

(17) Stonegate Group Gross Margin for Drinks (Ongoing) represents, for the relevant period, (i) revenue from drinks sales (excluding revenue from drinks sales at disposed sites) minus cost of the drinks purchased (excluding costs of drinks purchased at disposed sites), divided by (ii) revenue from drinks sales (excluding revenue from drinks sales at disposed sites). Stonegate Group Gross Margin for Food (Ongoing) represents, for the relevant period, (i) our revenue from food sales (excluding revenue from food sales at disposed sites) minus cost of the food purchased (excluding costs of food purchased at disposed sites), divided by (ii) revenue from food sales (excluding revenue from food sales at disposed sites). Stonegate Group Total Gross Margin (Ongoing) represents, for the relevant period, our total revenue (excluding revenue at disposed sites) minus total operating costs (excluding operating costs at disposed sites), divided by total revenue (excluding revenue at disposed sites). These metrics for the 28 weeks ended April 12, 2020 are presented under "Stonegate Group Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Performance Measures—Like for Like Growth."

(18) Stonegate Group Return on Investment represents, for all pubs invested during the 156 weeks preceding the date on which we present the Stonegate Group Return on Investment, the difference between the annualized (on a 52-week basis) aggregate weekly average post-investment Stonegate Group Pre-adjusted EBITDA (from the first full four-week period after the re-opening of such pubs) and the 52-week pre-investment Stonegate Group Pre-adjusted EBITDA of those pubs (to the end of the last full four-week period), divided by the aggregate Stonegate Group Investment Capital Expenditure invested in these pubs over the same 156 weeks. Where a pub has traded for less than 52 weeks post-investment, we have not taken it into account when calculating the Stonegate Group Return on Investment. Pubs where we have not made a Stonegate Group Investment Capital Expenditure in the past 156 weeks are classed as uninvested. For Stonegate Group Return on Investment for the 156 weeks ended April 12, 2020, see "Stonegate Group Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Performance Measures—Stonegate Group Return on Investment." For more information concerning how this metric is calculated, see "Presentation of Financial and Other Information—Non-IFRS Financial Information."

(19) Represents sites closed in the ordinary course of business as of April 12, 2020 (not including COVID-19 mandated government closures).

(20) To satisfy the concerns of the CMA in connection with the Transaction, we have undertaken to dispose of 42 sites to third parties, including 10 sites from Stonegate Group's estate and 32 sites from Ei Group's estate. For the financial year 2019, these sites had an aggregate pre-adjusted site EBITDA of approximately £4 million. We intend to complete the disposal of these sites by November 2020.

(21) Adjusted Net Debt, Secured First Lien Adjusted Net Debt and Secured First Lien Adjusted Net Debt are calculated as follows:

- Adjusted Net Debt represents Stonegate Group's net debt as of January 19, 2020 less Stonegate Group's lease liability as of January 19, 2020 (calculated in accordance with IFRS 16), as adjusted to give effect to the Transaction Financing and £50 million of equity contribution by TDR Capital in July 2020, and the application of the proceeds therefrom.

  Adjusted Net Debt as of January 19, 2020 is calculated as:

  (i) the sum of £1,223 million in aggregate principal amount of New Notes offered hereby, £500 million in aggregate principal amount of Existing Fixed Rate Notes, £26 million of borrowings under our Revolving Facilities Agreement (representing Stonegate Group's actual revolver borrowings of £6 million as of January 19, 2020 and Ei Group's actual revolver borrowings of £20 million as of December 28, 2019), £180 million of borrowings under our Senior Term Facilities Agreement, £400 million of borrowings under our Second Lien Facility Agreement and £683 million in aggregate principal amount of Unique Securitized Notes as of December 28, 2019, *less*

(ii) the sum of cash and cash equivalents of Stonegate Group as of January 19, 2020 (£16 million) and Ei Group as of December 28, 2019 (£156 million), *adjusted for*

(iii) (x) £50 million of equity contribution by TDR Capital in July 2020, which we intend to retain as cash on our balance sheet and to utilize to finance our business and operational needs as required, (y) an estimated £3.1 million of accrued and unpaid interest related to the Senior Bridge Facilities and the Senior Term Facilities being repaid, assuming they get repaid on or about July 31, 2020, which we intend to pay from cash on balance sheet on or about the Issue Date and (z) an estimated £12.7 million of fees in connection with the issuance of the Notes, part of which we paid from cash on balance sheet on or about July 13, 2020 in connection with the issuance of the Existing Fixed Rate Notes and the remainder of which we intend to pay from cash on balance sheet on or about the Issue Date.

Assuming drawings of £200 million under our Revolving Facilities Agreement as of January 19, 2020, our Adjusted Net Debt would have been higher by £174 million. We experienced a significant decrease in our cash and cash equivalents as a result of the impact of the COVID-19 pandemic. For a description of our current liquidity position and our liquidity profile between March 30, 2020 and July 3, 2020, see "Summary—Recent Developments—Liquidity Update."

- Secured First Lien Adjusted Net Debt represents the total borrowings under the Notes, the Senior Term Facilities Agreement and the Revolving Facilities, adjusted to give effect to the Transaction Financing and £50 million of equity contribution by TDR Capital in July 2020, and the application of the proceeds therefrom.

  Secured First Lien Adjusted Net Debt as of January 19, 2020 is calculated as Adjusted Net Debt as of January 19, 2020 excluding total cash of Unique Group of £111 million (resulting in £2,916 million) less £400 million of borrowings under our Second Lien Facility Agreement and £683 million in aggregate principal amount of Unique Securitized Notes as of December 28, 2019.

- Unique Group Adjusted Net Debt represents the total debt less cash of the Unique Group, calculated as follows. Total debt of Unique Group represents the aggregate principal amount of the outstanding Unique Securitized Notes as of December 28, 2019 of £683 million. Total cash of Unique Group represents cash at UPP as of December 28, 2019 of £110 million and cash at the Unique Issuer as of December 28, 2019 of £1 million. Unique Group Adjusted Net Debt does not include the fair value premium attributed to Unique Securitized Notes in the consolidated balance sheet of Ei Group as of December 29, 2019 of £9 million or deduct capitalized debt issue costs in relation to the Unique Securitized Notes of £6 million.

See "Use of Proceeds" and "Capitalization."

(22) Adjusted Cash Interest Expense represents Stonegate Group's interest expense in cash adjusted to give effect to the Transaction Financing, and the application of the proceeds therefrom. Adjusted Cash Interest Expense has been calculated in respect of £1,223 million in aggregate principal amount of New Notes offered hereby, £500 million in aggregate principal amount of Existing Fixed Rate Notes, £180 million of borrowings under our Senior Term Facilities Agreement, £26 million of borrowings under our Revolving Facilities Agreement (representing Stonegate Group's actual revolver borrowings of £6 million as of January 19, 2020 and Ei Group's actual revolver borrowings of £20 million as of December 28, 2019), £400 million of borrowings under our Second Lien Facility Agreement and £683 million in aggregate principal amount of Unique Securitized Notes as of December 28, 2019. Assuming drawings of £200 million under our Revolving Facilities Agreement as of January 19, 2020, our Adjusted Cash Interest Expense would have been higher. See "Use of Proceeds" and "Capitalization."

(23) Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS 16) less Unique represents the Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS 16) of £494 million for the 52 weeks ended January 19, 2020 *less* Unique Group Underlying EBITDA (excluding the impact of IFRS 16 and £3 million of EBITDA attributable to certain disposed sites) of £120 million for the 52 weeks ended March 28, 2020. The Unique Group Underlying EBITDA for the 52 weeks ended March 28, is presented under "Ei Group's Summary Historical Financial and Other Information."

(24) Combined LTV Ratio is the ratio of Adjusted Net Debt as of January 19, 2020 to the sum of Stonegate Group Property Asset Value and Ei Group Property Asset Value (£4,087 million). Stonegate Group Property Asset Value of £798 million represents the property asset value of 761 sites of Stonegate Group as of September 29, 2019, determined by Davis Coffer Lyons. Ei Group Property Asset Value of £3,289 million represents the sum of property, plant and equipment, investment property, non-current assets held for sale and intangible assets of Ei Group, derived from Ei Group's balance sheet as of September 30, 2019, which is based on an annual valuation exercise of Ei Group's estate carried out by Avison Young, Colliers and the internal estates director of Ei Group. To satisfy the concerns of the CMA in connection with the Transaction, we have undertaken to dispose of 10 sites from Stonegate Group's estate and 32 sites from Ei Group's estate to third parties, and we have not adjusted the Stonegate Group Property Asset Value and the Ei Group Property Asset Value to reflect these potential disposals. See "Summary—Transaction." In addition, the Combined LTV Ratio, Stonegate Group Property Asset Value and Ei Group Property Asset Value do not reflect any impairment in the value of our property, plant and equipment and operating leases after September 30, 2019. Based on our evaluation of expected undiscounted future cash flows of property, plant and equipment related to the effects of the COVID-19 pandemic, carried out to determine if the carrying value of these assets is recoverable, we have recorded a total impairment charge of £24 million as of and for the 28 weeks ended April 12, 2020. Property, plant and equipment are reviewed for impairment if there are any indicators to suggest that the carrying amount may not be recoverable and recoverable amounts are determined based on value-in-use calculations and estimated sale proceeds. See "Summary—Recent Developments—Impairment Review."

(25) Unique Group LTV Ratio is the ratio of Unique Group Adjusted Net Debt (as of December 28, 2019) to the Unique Group Property Asset Value (as of September 30, 2019). Unique Group Property Asset Value of £1,547 million represents the Ei

Group Property Asset Value in relation to the pubs beneficially owned by Unique Group. Combined LTV Ratio (excluding Unique) is the ratio of Adjusted Net Debt less Unique Group Adjusted Net Debt to the product of Stonegate Group Property Asset Value plus Ei Group Property Asset Value less Unique Group Property Asset Value.

(26) Combined LTV Ratio excluding Unique is the ratio of (i) Adjusted Net Debt less Unique Group Adjusted Net Debt (£2,233 million) to (ii) the sum of Stonegate Group Property Asset Value and Ei Group Property Asset Value (£4,087 million) less Unique Group Property Asset Value (£1,547 million).

Ei Group's Summary Historical Financial and Other Information

The following tables summarize Ei Group's historical consolidated financial information as of the dates and for the periods indicated. The summary historical consolidated financial information as of and for the year ended September 30, 2017, September 30, 2018 and September 30, 2019, have been derived from Ei Group's audited consolidated financial statements included elsewhere in this Offering Memorandum.

The summary historical condensed consolidated financial information as of and for the 13 weeks ended December 29, 2018 and December 28, 2019 have been derived from Ei Group's condensed consolidated interim financial statements included elsewhere in this Offering Memorandum, which have been prepared on a basis consistent with Ei Group's annual audited consolidated financial statements. In the opinion of the management of Ei Group, such unaudited financial information reflected all adjustments necessary for a fair presentation of the results for those periods. These financial statements have been prepared in accordance with the recognition and measurement requirements of IFRS as adopted by the European Union.

IFRS 16 (Leases) became effective on January 1, 2019 and applies to the first full financial year commencing on or after that date. Ei Group's first full financial year following the effective date of IFRS 16 began October 1, 2019. Accordingly, Ei Group has applied IFRS 16 for financial periods beginning October 1, 2019. Ei Group has adopted IFRS 16 under the modified retrospective approach. Under this approach, comparative information for previous years is not restated and, as a result, no IFRS 16 adjustments have been made to its financial statement for the periods prior to the 13 weeks ended December 28, 2019. However, certain of its financial information as of and for the 13 weeks ended December 28, 2019 and the 52 weeks ended December 28, 2019 is presented in this Offering Memorandum on an adjusted basis, excluding the impact of IFRS 16, to provide a meaningful basis for comparing its financial statements with prior periods. See "Summary—Ei Group's Summary Historical Financial and Other Information" and "Ei Group Management's Discussion and Analysis of Financial Condition and Results of Operation—Factors Affecting the Comparability of Ei Group's Results of Operations—Changes in Accounting Policy."

The income statement information, as well as the other financial and operating information, presented for the 52 weeks ended December 28, 2019 is derived by adding the relevant item for the year ended September 30, 2019 and for the 13 weeks ended December 28, 2019 (excluding the impact of IFRS 16), and subtracting the relevant item for the 13 weeks ended December 29, 2018.

We present certain non-IFRS measures below that Ei Group uses to evaluate its operating and financial performance, including, among others, Ei Group EBITDA, Ei Group Underlying EBITDA, Ei Group Underlying EBITDA Margin, Ei Group Cash Conversion, Ei Group Like for Like Publican Partnerships Net Income Growth, Ei Group Managed Pubs Like for Like Sales Growth, Ei Group Like for Like Commercial Properties Net Income Growth, Ei Group Publican Partnership Pubs Site EBITDA, Ei Group Commercial Properties Site EBITDA, Ei Group Return on Investment, Ei Group Publican Partnerships Return on Investment, Ei Group Managed Operations Return on Investment, Ei Group Managed Investments Return on Investment, Ei Group Property Asset Value, Unique Group EBITDA, Unique Group Underlying EBITDA and Unique Group Property Asset Value. These measures are not identified as accounting measures under IFRS and therefore should not be considered as alternative measures to evaluate Ei Group's performance. These measures have been prepared for information purposes only and have not been prepared in accordance with IFRS or audited or reviewed in accordance with any applicable auditing standards. In addition, these measures may not be calculated on a basis similar to that used by Stonegate Group and may not be comparable to similar measures presented for Stonegate Group in this Offering Memorandum. See "Presentation of Financial and Other Information—Non-IFRS Information."

We also present below Unique Group EBITDA and Unique Group Underlying EBITDA for the year ended September 30, 2019, the 16 weeks ended December 29, 2018 and December 28, 2019, the 52 weeks ended December 28, 2019 and the 26 weeks ended March 30, 2019 and March 28, 2020, which have been derived from UPP's standalone financial statements. Unique Group EBITDA and Unique Group Underlying EBITDA for the 52 weeks ended December 28, 2019 are derived by adding the relevant item for the year ended September 30, 2019 and for the 13 weeks ended December 28, 2019, and subtracting the relevant item for the 13 weeks ended December 29, 2018.

The results of operations and other financial and operating information for prior years are not necessarily indicative of the results to be expected for any future period. This financial information should be read in conjunction with the historical consolidated financial statements and accompanying notes included elsewhere in this Offering Memorandum and discussed in “Presentation of Financial and Other Information,” “Ei Group’s Selected Historical Consolidated Financial Information” and “Ei Group Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

(£ in millions)	For the year ended September 30, 2017	For the year ended September 30, 2018	For the year ended September 30, 2019	For the 13 weeks ended December 29, 2018	For the 13 weeks ended December 28, 2019[2]	Excludes the Impact of IFRS 16[1]: For the 13 weeks ended December 28, 2019	Excludes the Impact of IFRS 16[1]: For the 52 weeks ended December 28, 2019
Consolidated Historical Income Statement Data							
Revenue	**648**	**695**	**724**	**185**	**185**	**185**	**724**
Operating costs before depreciation and amortization	(370)	(413)	(456)	(111)	(112)	(117)	(462)
EBITDA	**278**	**282**	**268**	**74**	**73**	**68**	**262**
Depreciation and amortization	(17)	(19)	(21)	(5)	(8)	(6)	(22)
Operating Profit	**261**	**263**	**247**	**69**	**65**	**62**	**240**
Profit on sale of controlling interest in subsidiary undertaking	—	1	—	—	—	—	—
(Loss)/Profit on sale of property	10	2	(7)	—	1	1	(6)
Goodwill allocated to disposals	(10)	(8)	(35)	(1)	—	—	(34)
Net loss on sale of property	—	(6)	(42)	(1)	1	1	(40)
Movement in valuation of the estate and related assets	(24)	(19)	(20)	(3)	(5)	(5)	(22)
Goodwill impairment	—	—	(232)	—	—	—	(232)
Finance costs	(179)	(152)	(152)	(36)	(36)	(32)	(148)
Profit/(loss) before tax	**58**	**87**	**(199)**	**29**	**25**	**26**	**(202)**
Taxation	(4)	(15)	(10)	(5)	(5)	(5)	(10)
Profit/(loss) after tax attributable to members of the parent company	**54**	**72**	**(209)**	**24**	**20**	**21**	**(212)**

(£ in millions)	As of September 30, 2017	As of September 30, 2018	As of September 30, 2019	As of December 28, 2019[(2)]	Excludes the Impact of IFRS 16[(1)] As of December 28, 2019
Selected Consolidated Historical Balance Sheet Data					
Total non-current assets	3,915	3,912	3,315	3,500	3,298
Intangible assets: operating lease premium	*9*	*9*	*8*	—	*7*
Property, plant and equipment	*3,322*	*3,228*	*3,185*	*3,344*	*3,152*
Investment Property	*270*	*368*	*81*	*107*	*98*
Total current assets	206	219	210	223	226
Cash[(3)]	*151*	*158*	*156*	*156*	*156*
Non-current assets held for sale	25	13	15	39	27
Total assets	4,146	4,144	3,540	3,762	3,551
Total current liabilities	(283)	(405)	(222)	(205)	(206)
Total non-current liabilities	(2,360)	(2,185)	(2,022)	(2,294)	(2,033)
Total liabilities	**(2,643)**	**(2,590)**	**(2,244)**	**(2,499)**	**(2,239)**
Net assets	**1,503**	**1,554**	**1,296**	**1,263**	**1,312**
Total equity	**1,503**	**1,554**	**1,296**	**1,263**	**1,312**

(£ in millions)	For the year ended September 30, 2017	For the year ended September 30, 2018	For the year ended September 30, 2019	For the 13 weeks ended December 29, 2018[(2)]	For the 13 weeks ended December 28, 2019[(2)]	Excludes the Impact of IFRS 16[(1)] For the 13 weeks ended December 28, 2019
Selected Consolidated Cash Flow Statement Data						
Net cash flow from operating activities	261	271	247	49	36	31
Net cash flow from investing activities	20	(15)	297	(16)	(19)	(19)
Net cash flow from financing activities	(275)	(249)	(546)	(26)	(17)	(12)
Net increase/(decrease) in cash	**6**	**7**	**(2)**	7	**—**	**—**
Cash at the start of the period	145	151	158	158	156	156
Cash at the end of the period	**151**	**158**	**156**	165	**156**	**156**

(£ in millions, unless otherwise noted)	For the year ended September 30, 2017	For the year ended September 30, 2018	For the year ended September 30, 2019	For the 13 weeks ended December 29, 2018	For the 13 weeks ended December 28, 2019	For the 52 weeks ended December 28, 2019
Segment and Other Financial Information						
Revenue	648	695	724	185	185	724
Ei Group Publican Partnerships	*547*	*516*	*487*	*127*	*117*	*477*
Ei Group Managed Pubs	*80*	*152*	*218*	*50*	*65*	*233*
Ei Group Commercial Properties	*21*	*27*	*19*	*8*	*3*	*14*
Ei Group Underlying EBITDA(4)	287	287	276	75	69(5)	270(5)
Underlying EBITDA for Ei Group Publican Partnerships	*325*	*307*	*291*	*75*	*70*	*286*
Underlying EBITDA for Ei Group Managed Pubs	*13*	*28*	*42*	*10*	*13*	*45*
Underlying EBITDA for Ei Group Commercial Properties	*21*	*27*	*19*	*8*	*3*	*14*
Underlying EBITDA for Central	*(72)*	*(75)*	*(76)*	*(18)*	*(17)(5)*	*(75(5))*
Ei Group Underlying EBITDA Margin (%)(6)	44.3%	41.3%	38.1%	40.5%	37.3%(5)	37.3%(5)
Underlying EBITDA Margin for Ei Group Publican Partnerships	*59.4%*	*59.5%*	*59.8%*	*59.1%*	*59.8%*	*60.0%*
Underlying EBITDA Margin for Ei Group Managed Pubs	*16.3%*	*18.4%*	*19.3%*	*20.0%*	*20.0%*	*19.3%*
Underlying EBITDA Margin for Ei Group Commercial Properties	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*
Ei Group Cash Conversion(7)	88.9%	88.9%	86.6%	92.0%	91.3%	86.3%
Ei Group Like for Like Publican Partnerships Net Income Growth(8)	2.3%	1.2%	1.2%	2.0%	(1.1)%	0.3%
Ei Group Managed Pubs Like for Like Sales Growth(9)	2.4%	7.1%	5.0%	5.7%	3.1%	4.1%
Ei Group Like for Like Commercial Properties Net Income Growth(10)	1.4%	5.1%	(5.0)%	6.8%	6.2%	(4.7)%
Ei Group Publican Partnership Pubs Site EBITDA (£ in thousands)(11)	80	81	83	21	21	83
Ei Group Commercial Properties Site EBITDA (£ in thousands)(12)	67	72	75	18	18	77
Ei Group Return on Investment(13)	21%	22%	21%	24%	24%	24%
Ei Group Publican Partnerships Return on Investment(13)	21%	19%	20%	16%	19%	19%

(£ in millions, unless otherwise noted)	For the year ended September 30, 2017	For the year ended September 30, 2018	For the year ended September 30, 2019	For the 13 weeks ended December 29, 2018	For the 13 weeks ended December 28, 2019	For the 52 weeks ended December 28, 2019
Ei Group Managed Operations Return on Investment(13)	25%	23%	23%	25%	22%	22%
Ei Group Managed Investments Return on Investment(13)	17%	21%	23%	19%	21%	21%

				Excludes the Impact of IFRS 16				Excludes the Impact of IFRS 16
(£ in millions)	For the year ended September 30, 2019	For the 13 weeks ended December 29, 2018	For the 13 weeks ended December 28, 2019(2)	For the 13 weeks ended December 28, 2019	For the 52 weeks ended December 28, 2019	For the 26 weeks ended March 30, 2019	For the 26 weeks ended March 28, 2020	For the 26 weeks ended March 28, 2020
Unique Group EBITDA(14)	125	33	30	29	121	64	56	56
Unique Group Underlying EBITDA(14)	126	33	30	30	123	64	57	57

	Excludes the Impact of IFRS 16
(£ in millions)	As of September 30, 2019
Ei Group Property Asset Value(15)	*3,289*
Unique Group Property Asset Value(15)	*1,547*

(1) We have discussed below the impact of IFRS 16 on Ei Group's consolidated income statement, consolidated balance sheet and consolidated cash flow statement:

- The net impact of IFRS 16 on Ei Group's consolidated income statement data for the 13 weeks ended December 28, 2019 was £1 million. This included a £2 million increase in depreciation and amortization due to additional depreciation charges and a £4 million increase in finance cost due to additional interest expense on lease liabilities, offset by a £5 million decrease in operating cost due to the elimination of Ei Group's operating lease expense as operating cost.

- The impact of IFRS 16 on Ei Group's consolidated balance sheet data as of December 28, 2019 consisted of:

  (i) a net increase of £202 million in non-current assets due to an increase of £192 million in property, plant and equipment pursuant to recognition of a right of use asset in relation to operating leases, an increase of £9 million in investment property pursuant to recognition of a right of use asset in relation to operating leases where the asset is categorized as an investment property and an increase of £8 million in financial assets categorized as non-current assets in relation to net investments in a lease where the sublease is categorized as a finance lease, offset by a decrease of £7 million in intangible assets (operating lease premium) pursuant to recognition of operating leases as a right of use asset in the balance sheet;

  (ii) a net decrease of £3 million in current assets due to a decrease of £4 million of trade and other receivables pursuant to release of prepayments previously recognized with regard to leaseholds rents offset by an increase of £1 million in financial assets in relation to net investments in leases where the sublease is categorized as a finance lease;

  (iii) an increase of £12 million in non-current assets held for sale due to recognition of a right of use asset in relation to operating leases where the property is categorized as held for sale;

  (iv) a net decrease of £1 million in current liabilities due to a decrease of £4 million in trade and other payables pursuant to release of rent review accruals previously recognized with regard to leasehold rents and a decrease of £1 million in current provisions on account of release of onerous lease provision previously recognized with regard to leasehold rents offset by an increase of £4 million in financial liabilities pursuant to recognition of lease liabilities as future commitment to pay leasehold rent; and

  (v) a net increase of £261 million in non-current liabilities due to an increase of £276 million in financial liabilities pursuant to recognition of lease liabilities as future commitment to pay leasehold rent, offset by a decrease of £5 million in provisions on account of release of onerous lease provision previously recognized with regard to leasehold rents and a decrease of £10 million in deferred tax on account of temporary difference created through IFRS 16.

- The impact of IFRS 16 on Ei Group's consolidated cash flows statement for the 13 weeks ended December 28, 2019, consisted of a reclassification of £5 million of cash flow from operating activities to cash flows from financing activities, representing operating lease payments.

See "Ei Group Management's Discussion and Analysis of Financial Condition and Results of Operation—Factors Affecting the Comparability of our Results of Operations—Changes in Accounting Policy."

(2) Includes the impact of IFRS 16.

(3) Ei Group's cash of £156 million as of December 28, 2019 includes £111 million held as cash by Unique Group (adjusted for any intragroup balances with Ei Group), of which £65 million is held in a securitized reserve account.

(4) Ei Group Underlying EBITDA represents Ei Group EBITDA excluding non-underlying items. Underlying EBITDA for Ei Group Publican Partnerships, Underlying EBITDA for Ei Group Managed Pubs and Underlying EBITDA for Ei Group Commercial Properties represents the operating profit for such segments since all non-underlying operating costs and depreciation and amortization are allocated to central. The following table provides a reconciliation of Ei Group Operating Profit to Ei Group EBITDA and to Ei Group Underlying EBITDA.

						Excludes the Impact of IFRS 16	
(£ in millions)	**For the year ended September 30, 2017**	**For the year ended September 30, 2018**	**For the year ended September 30, 2019**	**For the 13 weeks ended December 29, 2018**	**For the 13 weeks ended December 28, 2019[(2)]**	**For the 13 weeks ended December 28, 2019**	**For the 52 weeks ended December 28, 2019**
Ei Group Operating Profit	261	263	247	69	65	62	240
Depreciation and amortization	17	19	21	5	8	6	22
Ei Group EBITDA	**278**	**282**	**268**	**74**	**73**	**68**	**262**
Non-underlying operating costs before depreciation and amortization[(a)] ...	9	5	8	1	1	1	8
Ei Group Underlying EBITDA[(b)]	**287**	**287**	**276**	**75**	**74**	**69**	**270**

(a) Non-underlying operating costs before depreciation and amortization comprise operating costs that Ei Group regards as one-off operating costs as well as other adjusting items. Ei Group applies judgment in identifying the significant items of income and expense that are recognized as non-underlying to provide an indication of Ei Group's underlying business performance. Non-underlying operating costs before depreciation and amortization included (i) for the year ended September 30, 2017, assignment premiums of £6 million in connection with the strategic realignment of properties (i.e., to take the assignment of a lease or to break a lease at any point other than at renewal) and restructuring costs of £3 million, (ii) for the year ended September 30, 2018, assignment premiums of £4 million in connection with the strategic realignment of properties as well as restructuring costs of £1 million, (iii) for the 13 weeks ended December 29, 2018, assignment premiums of £1 million in connection with the strategic realignment of properties, (iv) for the year ended September 30, 2019, assignment premiums of £8 million in connection with the strategic alignment of properties and £5 million in connection with the Transaction, primarily relating to advisory fees, and (v) for the 13 weeks ended December 28, 2019, assignment premiums of £1 million in connection with the strategic realignment of properties.

(b) Ei Group Underlying EBITDA (excluding the impact of IFRS 16) for the 52 weeks ended December 28, 2019 of £270 million includes the Ei Group Underlying EBITDA contributed by (i) the 355 assets under its Ei Group Commercial Properties segment and (ii) 124 assets in the ordinary course that were disposed of during this period. These disposed assets contributed £6 million and £1 million, respectively, to Ei Group Underlying EBITDA (excluding the impact of IFRS 16) for the 52 weeks ended December 28, 2019. Ei Group Underlying EBITDA for the year ended September 30, 2019 of £276 million includes the Ei Group Underlying EBITDA contributed by (i) the 354 assets under its Ei Group Commercial Properties segment and (ii) 129 assets in the ordinary course that were disposed of during this period and compares to Ei Group Underlying EBITDA of £287 million for the year ended September 30, 2018. These assets contributed £13 million and £1 million, respectively, to Ei Group Underlying EBITDA for the year ended September 30, 2019, and £26 million and £1 million, respectively, to Ei Group Underlying EBITDA for the year ended September 30, 2018. Accordingly, adjusting for these disposals, Ei Group Underlying EBITDA from Ei Group's retained business increased from £260 million for the year ended September 30, 2018 to £262 million for the year ended September 30, 2019.

For the 13 weeks ended December 28, 2019, the Underlying EBITDA (including the impact of IFRS 16) for Ei Group Publican Partnerships, Ei Group Managed Pubs, Ei Group Commercial Properties and central, was £70 million, £13 million, £3 million and negative £12 million, respectively.

Ei Group EBITDA and Ei Group Underlying EBITDA are non-IFRS measures that have important limitations as analytical tools. You should not consider them in isolation or as substitutes for analysis of Ei Group's results as reported under IFRS. See "Certain Definitions" and "Presentation of Financial and Other Information."

(5) Excludes the impact of IFRS 16.

(6) Ei Group Underlying EBITDA Margin represents Ei Group Underlying EBITDA divided by Ei Group revenue. Underlying EBITDA Margin for each of Ei Group's operating segments (i.e. Ei Group Publican Partnerships, Ei Group Managed Pubs and Ei Group Commercial Properties) represents Underlying EBITDA of the relevant segment divided by revenue of that segment.

(7) Ei Group Cash Conversion represents Ei Group Underlying EBITDA less Ei Group Letting and Maintenance Capital Expenditure, divided by Ei Group Underlying EBITDA. This metric is calculated on a basis similar to that for Stonegate Group and does not seek to represent any cash conversion or similar metric historically disclosed by Ei Group, as shown below:

					Excludes the Impact of IFRS 16, as applicable
(£ in millions, unless otherwise noted)	**For the year ended September 30, 2017**	**For the year ended September 30, 2018**	**For the year ended September 30, 2019**	**For the 13 weeks ended December 29, 2018**	**For the 13 weeks ended December 28, 2019**
Ei Group Underlying EBITDA	287	287	276	75	69
Ei Group Letting and Maintenance Capital Expenditure	(32)	(32)	(37)	(6)	(6)
Ei Group Underlying EBITDA less Ei Group Letting and Maintenance Capital Expenditure	255	255	239	69	63
Ei Group Cash Conversion	88.9%	88.9%	86.6%	92.0%	91.3%

(8) Ei Group Like for Like Publican Partnerships Net Income Growth represents the percentage growth in the pub level net income from the Ei Group Publican Partnerships estate for all pubs that have traded as Ei Group Publican Partnership pubs for at least one full year prior to the start of the relevant period excluding income in respect of disposals and other non like for like net income and costs.

(9) Ei Group Managed Pubs Like for Like Sales Growth represents the percentage growth in the revenue from sites in the Ei Group Managed Pubs estate which were invested at least one full year prior to the start of the relevant period.

(10) Ei Group Like For Like Commercial Properties Net Income Growth represents the percentage growth in the asset level net income from the Ei Group Commercial Properties estate for all assets that have traded as Ei Group Commercial Properties for at least one full year prior to the start of the relevant period excluding income in respect of disposals and other non like for like net income and costs.

(11) Ei Group Publican Partnership Pubs Site EBITDA represents the Ei Group Underlying EBITDA for Ei Group Publican Partnership pubs trading at the end of the period (excluding income in respect of disposals and other non like for like net income and costs) divided by the number of Ei Group Publican Partnership pubs trading at the end of the period.

(12) Ei Group Commercial Properties Site EBITDA represents the Ei Group Underlying EBITDA for Ei Group Commercial Property assets trading at the end of the period (excluding income in respect of disposals and other non like for like net income and costs and including net income relating to the pubs before they were transferred to the Ei Group Commercial Properties segment offset by unlicensed property income) divided by the total Ei Group Commercial Property assets trading at the end of the period.

(13) Ei Group Return on Investment represents the return on investment for all pubs in Ei Group's estate trading for more than three months following a growth capital investment of greater than £20,000, calculated by dividing the incremental income delivered as a result of such investment by the value of such capital investment. In respect of recently opened pubs in the Ei Group Managed Pubs segment, incremental income is calculated based on EBITDA based on current site performance. Ei Group Publican Partnerships Return on Investment represents the return on investment for pubs in the Ei Group Publican Partnerships segment trading for more than three months following a growth capital investment of greater than £20,000, calculated by dividing the incremental income delivered as a result of such investment by the value of such capital investment. Ei Group Managed Operations Return on Investment represents the return on investment for pubs in Ei Group's Managed Operations division trading for more than six months following a growth capital investment of greater than £20,000, calculated by dividing the incremental income delivered as a result of such investment by the value of such capital investment. Ei Group Managed Investments Return on Investment represents the return on investment for pubs in Ei Group's Managed Investments division trading for more than six months following a growth capital investment of greater than £20,000, calculated by dividing the incremental income delivered as a result of such investment by the value of such capital investment and, in each case, excluding the minority interest of the expert partners.

(14) Unique Group EBITDA represents, in respect of UPP, its earnings before finance costs, tax, depreciation and amortization, and excluding the impact of IFRS 16, which has been derived from UPP's standalone financial statements. Unique Group Underlying EBITDA represents Unique Group EBITDA excluding certain non-underlying items. The following table provides a reconciliation of Unique Group's operating profit to Unique Group EBITDA and Unique Group EBITDA to Unique Group Underlying EBITDA.

				Excludes the Impact of IFRS 16				**Excludes the Impact of IFRS 16**
(£ in millions)	**For the year ended September 30, 2019**	**For the 13 weeks ended December 29, 2018**	**For the 13 weeks ended December 28, 2019**	**For the 13 weeks ended December 28, 2019**	**For the 52 weeks ended December 28, 2019**	**For the 26 weeks ended March 30, 2019**	**For the 26 weeks ended March 28, 2020**	**For the 26 weeks ended March 28, 2020**
Operating Profit of UPP[14]	118	31	27	27	114	61	52	52
Depreciation and amortization of UPP	7	2	2	2	7	3	4	4
Unique Group EBITDA	**125**	**33**	**29**	**29**	**121**	**64**	**56**	**56**
Non-underlying operating costs before depreciation and amortization[a]	1	—	1	1	2	—	1	1
Unique Group Underlying EBITDA[b]	**126**	**33**	**30**	**30**	**123**	**64**	**57**	**57**

(a) Non-underlying operating costs before depreciation and amortization comprise operating costs that are regarded as one-off operating costs as well as other adjusting items. Non-underlying operating costs before depreciation and amortization included (i) for the year ended September 30, 2019, assignment premiums of £1 million in connection with the strategic alignment of properties, (ii) for the 13 weeks ended December 28, 2019, assignment premiums of £1 million in connection with the strategic alignment of properties and (iii) for the 26 weeks ended March 28, 2020, assignment premiums of £1 million in connection with the strategic alignment of properties.

(b) Unique Group Underlying EBITDA for the 52 weeks ended December 28, 2019 of £123 million (excluding the impact of IFRS 16) includes the Unique Group Underlying EBITDA contributed by the 174 Ei Group Commercial Properties assets within Unique Group that were disposed of during this period. These disposed assets contributed £3 million to Unique Group Underlying EBITDA for the 52 weeks ended December 28, 2019. Unique Group Underlying EBITDA for the year ended September 30, 2019 of £126 million includes the Unique Group Underlying EBITDA contributed by the 173 Ei Group Commercial Properties assets within Unique Group that were disposed of during this period. These assets contributed £6 million to Unique Group Underlying EBITDA for the year ended September 30, 2019.

Unique Group EBITDA and Unique Group Underlying EBITDA are non-IFRS measures that have important limitations as analytical tools. You should not consider them in isolation or as substitutes for analysis of Unique Group's or Ei Group's results as reported under IFRS. See "Certain Definitions" and "Presentation of Financial and Other Information."

(15) Ei Group Property Asset Value represents the sum of property, plant and equipment, investment property, non-current assets held for sale and intangible assets of Ei Group, derived from Ei Group's balance sheet as of September 30, 2019, which is based on an annual valuation exercise of Ei Group's estate carried out by Avison Young, Colliers and the internal estates director of Ei Group. Ei Group Property Asset Value does not reflect the disposal of 32 sites from the Ei Group estate that we have undertaken to make to satisfy the concerns of the CMA in connection with the Transaction. See "—Transaction." Unique Group Property Asset Value represents the Ei Group Property Asset Value in relation to the pubs beneficially owned by Unique Group. Ei Group Property Asset Value and Unique Group Property Asset Value do not reflect any impairment in the value of Ei Group's or Unique Group's property, plant and equipment and operating leases after September 30, 2019. Property, plant and equipment are reviewed for impairment if there are any indicators to suggest that the carrying amount may not be recoverable and recoverable amounts are determined based on value-in-use calculations and estimated sale proceeds. See "Summary—Recent Developments—Impairment Review."

RISK FACTORS

An investment in the New Notes involves a high degree of risk. You should carefully consider the following risks, together with the other information provided to you in this Offering Memorandum, in deciding whether to invest in the New Notes. The occurrence of any of the events discussed below could be detrimental to our financial performance. If any of these events occur, the trading price of the New Notes could decline, we may not be able to pay all or part of the interest or principal on the New Notes, and you may lose all or part of your investment. Additional risks not currently known to us or which are presently deemed immaterial may also harm our business and affect your investment.

This Offering Memorandum contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from the results discussed in such forward-looking statements. Factors that might cause such differences include those discussed below. See "Forward-looking Statements."

Risks Related to Our Business

The impact of the COVID-19 pandemic on our business is uncertain and its effect on our customers' ability or desire to access our pubs and bars will continue to adversely impact our business, operating results, financial condition and prospects.

In late 2019, a novel strain of coronavirus, COVID-19, was first detected and in March 2020, the World Health Organization declared COVID-19 a global pandemic. Since the outbreak of the COVID-19 pandemic, governments of many countries, including the United Kingdom, have taken preventative measures to try to contain its spread. These measures have included mandatory closure of businesses, including pubs and bars, social distancing requirements and travel restrictions, which have severely diminished the level of economic activity around the world and in the United Kingdom, contributed to significant volatility in financial markets and triggered a period of global economic slowdown. In the United Kingdom, according to the Office of National Statistics, UK gross domestic product (GDP) declined by 10.4% in the three months to April 2020 and monthly GDP declined by 20.4% in April 2020 compared to March 2020, representing the biggest monthly decline on record as of June 12, 2020, as government restrictions on movement dramatically reduced economic activity. A continued economic slowdown may result in declines in disposable income, consumer spending as well as consumer confidence, which is likely to have a significant adverse effect on our business, operating results, financial condition and prospects.

On March 20, 2020, the UK government directed the closure of all pubs and bars in the United Kingdom. Pursuant to this directive, our pubs closed for business on March 20, 2020. Our pubs reopened for business on July 4, 2020 and, as of July 19, 2020, we had reopened 77% of our managed pubs and we believe that our publicans had reopened an estimated 89% of the pubs in our publican partnership estate. During the period from March 20, 2020 to July 4, 2020, we recorded no revenue other than nominal rent revenue. We continue to provide rent concessions and other support to our publicans, which may also result in lower revenues compared to prior periods. As a result of this period of closure and the measures we continue to take to combat the impact of COVID-19, our financial results for the 28 weeks ended April 12, 2020 have been, and our financial results for the 40 weeks ended July 5, 2020 will be, materially impacted. In addition, we would expect this period of closure or, if there are future periods of closure mandated by the UK government, to have a material impact on our financial results for the 52 weeks ended September 27, 2020 and beyond.

Late night formats where dancing is a key part of the offer and pubs aimed at the student demographic remain closed during this initial phase of reopening and we cannot predict when our remaining pubs will reopen. The UK government has prescribed detailed guidelines to maintain social distancing and hygiene measures in pubs to prevent the spread of COVID-19. These include measures in relation to increased sanitation and hygiene requirements, limitations on the size of gatherings, keeping a temporary record of customers, social distancing and other mitigating measures to slow the further spread of COVID-19, which may impact our ability to carry out our business and operations on a profitable basis or at all. While we believe our operations are currently in compliance with applicable guidance, if customers perceive our implementation of these measures to be inadequate or ineffective, we may experience lower than expected footfall at our pubs or suffer damage to our reputation, which could have a significant adverse effect on our business. In addition, customers' ability or desire to visit pubs may remain weak for a significant length of time and we cannot predict if and when customer footfall and spending at our pubs will return to pre-COVID-19 levels. We also cannot predict the impact that COVID-19 will have on our publicans. Weakening of the financial situation of our publicans could severely restrict their ability to pay rent and drinks revenues to us in a timely manner or at all, which could have a significant adverse effect on our business, results of operation, financial condition and prospects. It may cause prolonged negotiation with our publicans for additional rent concessions, rent deferrals or modifications to lease structures. Any of these factors could have a long-lasting adverse effects on our business, operating results, financial condition and prospects, some of which may be significant, and may adversely affect our ability to conduct our business on the same terms as we did prior to the COVID-19 pandemic.

The impact of COVID-19 on our business remains uncertain and will ultimately depend on a number of factors that cannot be accurately predicted at this time, including, but not limited to, the duration (including the extent of any resurgence in the future) and severity of the COVID-19 pandemic, the timing of and manner in which containment efforts are reduced or lifted, the timing and ability of vaccination and other treatments to combat COVID-19, the duration and magnitude of its impact on unemployment rates and consumer discretionary spending, the length of time it takes for demand and pricing to return to pre-COVID-19 levels and for normal economic and operating conditions to resume, which are all beyond our knowledge and control.

Moreover, there are no comparable recent events that provide us with guidance. For these reasons, we cannot reasonably estimate the impact of COVID-19 on our business with any certainty nor can we provide any assurance that COVID-19 will not continue to have a material adverse effect on our business, operating results, financial condition, cash flows and prospects.

To the extent COVID-19 continues to adversely affect our business, operating results, financial condition and prospects, it may also have the effect of heightening other risks described in this "Risk Factors" section, including those relating to our high level of indebtedness, our ability to generate sufficient cash flows to service our indebtedness, and our ability to comply with the covenants contained in the agreements that govern our indebtedness.

There is material uncertainty on our ability to continue as a going concern.

Stonegate Group's condensed consolidated interim financial statements as of and for the 28 weeks ended April 12, 2020 and as of and for the 16 weeks ended January 28, 2020, and Ei Group's condensed consolidated interim financial statements as of and for the 13 weeks ended December 28, 2019, have been prepared on a going concern basis. The going concern basis contemplates realization of assets and the satisfaction of liabilities in the normal course of business, and does not include any adjustments that might result from the outcome of the uncertainty regarding our ability to continue as such. See note 1.2 of each of Stonegate Group's condensed consolidated interim financial statements as of and for the 28 weeks ended April 12, 2020 and as of and for the 16 weeks ended January 28, 2020, and note 1 and note 18 of Ei Group's condensed consolidated interim financial statements as of and for the 13 weeks ended December 28, 2019.

Stonegate Group's latest forecasts and projections are for a period until September 2021 and are based on the phased reopening of its estate, which began on the July 4, 2020. The cash flow assumptions include a phased increase in sales over the going concern period with the assumption that all sites will be open by the end of September 2020. As of the date of Stonegate Group's condensed consolidated interim financial statements as of and for the 28 weeks ended April 12, 2020, current trading since July 4, 2020 was in line with these forecasts. The forecasts include a delay in all non-committed capital expenditure, reduction in variable costs including staffing and taking advantage of the twelve-month business rates holiday announced for the hospitality sector. In those forecasts, Stonegate Group is able to remain in compliance with the requirements under its debt facilities.

Based on these forecasts, Stonegate Group has the ability to continue trading for a period of at least twelve months from the date of signing of the financial statements as of and for the 28 weeks ended April 12, 2020, subject to sales improving in line with expectations, sites not being required to close down again and government initiatives assumed in the forecasts remaining intact.

As part of its going concern assessment, Stonegate Group's board also considered a number of severe but plausible downside scenarios. These scenarios include sales forecasts increasing at a slower growth rate than expected or all sites being required to close down once again for a period of two months. These downside scenarios have a significant impact on sales and cash flow and continue to be under review given current market conditions associated with the COVID-19 pandemic. For example, in the scenario where sales were to increase at a slower rate than has been forecast, as of July 2021, Stonegate Group may be in breach of certain covenants that it is required to comply with under certain of its debt facilities. In the scenario where all sites were required to close down once again for a period of two months, in the absence of additional funding or other mitigating actions, Stonegate Group may be in breach of certain covenants that it is required to comply with under certain of its debt facilities.

It is currently very difficult to assess how the COVID-19 situation will evolve. If one or more of our assumptions in making our assessment to report as a going concern are found to be incorrect, we may be unable to continue as a going concern. If we are unable to continue as such, we would have to liquidate our assets and may receive less than the value at which those assets are carried on our audited consolidated financial statements, and it is likely that investors will lose a part or all of their investment in the New Notes.

The spread of the COVID-19 pandemic has caused severe disruptions in the United Kingdom and the global economy and could potentially create widespread business continuity issues of unknown magnitude and duration, which may impact our liquidity and access to capital.

The COVID-19 pandemic has caused, and is likely to continue to cause, severe economic, market and other disruptions worldwide. We cannot assure you that conditions in the bank lending, capital and other financial markets will not continue to deteriorate as a result of the pandemic, or that our access to capital and other sources of funding will not become constrained, which could adversely affect the availability and terms of future borrowings, renewals or refinancing. We may be required to raise additional capital in the future and our access and cost of financing will depend on, among others, global economic conditions, conditions in the global financing markets, the availability of sufficient amounts, our prospects and our credit ratings.

In addition, the terms of future debt agreements could include more restrictive covenants or require incremental collateral, which may restrict our business operations or make such debt unavailable due to our covenant restrictions then in effect. There is no guarantee that debt financings will be available in the future to fund our obligations, or that they will be available on terms consistent with our expectations.

We depend upon our operations to generate strong cash flows to support our operating activities, supply capital to finance our operations and growth, make capital expenditure and manage our debt levels. The continuing economic disruption caused by the COVID-19 pandemic, and the resulting restrictions and preventive measures, have adversely affected our ability to generate sufficient cash flows from operations and could adversely affect our ability to make future interest and other payments with respect to our indebtedness and other obligations. While we have taken several steps to preserve capital, increase liquidity and improve efficiency, described under “Summary—Recent Developments—Liquidity Update,” our short-term liquidity needs are still significant, including funds necessary to pay for operating expenses and other expenditures, including certain payroll and related benefits, fixed costs associated with the operation of our pubs, interest and scheduled principal payments on our outstanding indebtedness, capital expenditures for renovations and maintenance at our pubs (to the extent not deferred) and corporate general and administrative expenses. Since we generally are unable to decrease these costs significantly or rapidly when demand for our pubs decreases, any resulting decline in our revenues, particularly in the event of a future resurgence of the COVID-19 pandemic, may have a greater adverse effect on our net cash flow, margins and profits.

Although we currently believe that our expected cash flows from operations, together with available borrowings, will be adequate to meet our anticipated liquidity and debt service needs, our estimated cash burn rates are subject to numerous risks and uncertainties, including uncertainties related to working capital needs as well as the terms of any financing available to us. Accordingly, it is possible that our monthly cash burn rate could be significantly higher than the levels we currently anticipate, which could mean we do not have sufficient liquidity to withstand reduced levels of business operations for an extended period of time. We may undertake additional steps in the short term to improve our liquidity if we determine that doing so would be beneficial to us. However, there can be no assurance as to the timing of any such steps or their successful implementation.

Unfavorable general economic conditions in the United Kingdom have had and may have a negative effect on our business.

All of our pubs are located in the United Kingdom and, therefore, their operating results are impacted by general economic conditions in the United Kingdom. In particular, given that consumer spending on eating and drinking out is discretionary in nature, their revenue is affected by general levels of disposable income.

Factors such as financial and political crises in the United Kingdom and the eurozone, terrorist attacks or other unexpected events such as the COVID-19 pandemic, the measures that may be implemented by the UK government in connection with Brexit, rising interest rates, declining wages, higher unemployment, tax increases and lack of consumer credit could all adversely affect the levels of disposable income, which in turn may lead to customers reducing their attendance and expenditure at pubs. Similarly, frequent changes to the UK government could lead to economic uncertainty and further loss of consumer confidence. Any such factors could in turn adversely affect our business, operating results, financial condition and prospects.

The outlook for the UK economy is currently subject to significant uncertainty, particularly in light of the impact of the ongoing COVID-19 pandemic, which may lead the United Kingdom into a prolonged period of economic downturn, recession or depression. The Bank of England predicts negative growth in the United Kingdom for the year 2020 and the UK government has instituted rescue policies intended to mitigate the effects of a recession. The United Kingdom has not yet fallen into recession and a significant risk remains that measures taken by the UK government and the Bank of England may not prevent the UK economy from entering into a recession. Adverse changes in the perceived or actual economic climate, including higher unemployment rates, declines in income levels and disposable income and loss of personal wealth could adversely affect our business, operating results, financial condition and prospects.

As a consequence of the significantly increased volatility and instability experienced during periods of challenging macroeconomic conditions, it is difficult for us to forecast demand trends. We may be unable to accurately predict the extent or duration of cycles or their effect on our financial condition or result of operations and can give no assurance as to the timing, extent or duration of the current or future macroeconomic cycles. A decline in demand due to adverse macroeconomic conditions may also have an adverse impact on the business of publicans and require us to substantially increase the amounts of financial assistance provided to them to enable them, to carry on their operations. Accordingly, a decline in demand due to the emergence of adverse economic conditions affecting the United Kingdom could have a material adverse effect on our business, operating results, financial condition and prospects.

Legal, political and economic uncertainty surrounding the exit of the United Kingdom from the European Union may be a source of instability in international markets, create significant currency fluctuations, and adversely impact current trading and supply arrangements, which could have a material adverse effect on our business, results of operations and financial condition.

The United Kingdom has withdrawn from the European Union effective January 31, 2020 and has commenced negotiations with the European Union to enter into a new trade agreement and is in a transition period until December 31, 2020. During the transition period, the United Kingdom continues to have access to the single EU market and customs union. However, if no trade agreement is reached during the transition period, the United Kingdom may lose access to the EU market and customs union without a suitable alternate arrangement in place, which may impact the general and economic conditions in the United Kingdom and the European Union. The terms of the new trade agreement and the nature of the future relationship between the United Kingdom and European Union remain unclear.

Due to the size and importance of the UK economy, and the uncertainty and unpredictability concerning the United Kingdom's relationship with the European Union at the end of transition period, enhanced by the economic uncertainty and unpredictability caused by the COVID-19 pandemic, there may continue to be instability in the market, significant currency fluctuations, and/or otherwise adverse effects on trading agreements or similar cross border cooperation arrangements (whether economic, tax, fiscal, legal, regulatory or otherwise) for the foreseeable future.

These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and could significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. In addition, Brexit may lead to a down-turn in the United Kingdom or other European economies and could lead to lower levels of consumer spending if consumer confidence declines or if individuals have less disposable income. Any reduction in our customers' willingness or ability to spend due to Brexit-related changes in the economic environment of the United Kingdom and Europe could materially affect our revenue. A general slow-down in the UK economy due to Brexit may also negatively impact our growth strategies as well as our current and future projections, operating results, financial condition and prospects.

Further, while the majority of our products are sourced and produced within the United Kingdom, continued or sustained adverse effects on the exchange rate of the pound sterling as compared to foreign currencies and the effective price inflation of certain products sourced from outside of the United Kingdom resulting from Brexit could result in increased costs with respect to the products that are sourced from outside of the United Kingdom. We cannot guarantee that we and our publicans would be able to mitigate or otherwise avoid such increased costs, and our inability to do so could have an adverse effect on our operating results, financial condition and prospects. Moreover, changes in the UK property market, caused by any negative development or uncertainty pursuant to Brexit, could negatively impact the value of our property portfolio and our ability to dispose of our assets and the realizations from such disposals.

In addition, approximately 1,487 of Stonegate Group's employees as of January 19, 2020 and approximately 385 of Ei Group's employees as of December 28, 2019 were citizens of the European Union but not of the United Kingdom. Accordingly, any future restrictions, whether perceived or actual, on the free movement of EU nationals to and from the United Kingdom could impact our ability to efficiently recruit employees which could in turn have an adverse effect on our business, operating results, financial condition and prospects. Furthermore, we source beverage commodities from suppliers in the European Union. For instance, during the 52 weeks ended January 19, 2020, Stonegate Group sourced approximately 24% of its supplies based on total cost of sales from the suppliers in the European Union. In addition, our suppliers may source a significant quantity of beverages and other supplies from other suppliers in the European Union. Accordingly, the supply, pricing and general availability of these commodities is influenced by, and is subject to, the outcome of the negotiations between the United Kingdom and the European Union. Accordingly, Brexit may have an impact on suppliers' trade relations and our ability to avoid the adverse effects of limited commodities or an increased price thereof is limited.

Lack of clarity about future UK laws and regulations as the United Kingdom determines which EU laws to replace or replicate following the withdrawal from the European Union, including financial laws and regulations, data privacy and collection laws and regulations and tax and free trade agreements, may increase costs associated with operating in the United Kingdom. Additionally, any substantial change in the regulations applicable to our business could jeopardize our ability to continue to operate in a manner consistent with our past practice.

We may be adversely affected by an increase in consumers purchasing alcohol from supermarkets, off-licenses and other retailers.

Consumers' spending patterns with respect to alcohol have evolved such that they now purchase a higher proportion of their alcoholic drinks at supermarkets, off-licenses and other retailers than has been the case in the past. As a result of the temporary closure of pubs and restaurants in the United Kingdom because of the COVID-19 pandemic, more consumers than usual turned to these alternative sources to buy alcoholic drinks and may continue to do so in the future. In particular, the on-trade beer market in the United Kingdom has been adversely affected by the pricing policies of the large supermarket groups, with the off-trade beer market in the United Kingdom accounting for a greater proportion of United Kingdom beer sales than in the past. This change in behavior has been due, among other things, to growing health and drink driving concerns, the smoking ban, the ability of consumers to purchase canned or bottled beer at lower prices at off-license stores and supermarkets and the expansion of trading hours at those retailers, as well as to the increasing prevalence of cable and satellite television, high speed internet access and social media, which provide consumers with more options to entertain themselves at home. The foregoing factors have contributed to a decline in the total number of pubs in the United Kingdom over the past twenty years. Although the rate at which consumers were shifting their spending towards off-trade channels was no longer increasing prior to the COVID-19 pandemic, this trend may change as a consequence of the COVID-19 pandemic. The ability or desire of customers to gather in pubs may be limited for a significant length of time. Moreover, consumers could potentially form new spending habits that have a longer lasting impact.

Accordingly, if the trend in consumers purchasing alcohol from supermarkets, off-licenses and other retailers were to resume along with a sustained decline in beer prices, our business, operating results, financial condition and prospects could be materially adversely affected.

We face competition for consumers from other managed and tenanted pub operators, independent pubs, venues and restaurants.

We compete for consumers against a wide variety of pubs, bars, venues and restaurants, as well as off-license stores, supermarkets and takeaway restaurants, some of which may offer higher amenity levels or lower prices or may be backed by greater financial and operational resources. Following the Transaction, our main competitors include Greene King, Marston's, Mitchells and Butlers, Star Pubs and Bars and JD Wetherspoon, but we also compete with smaller pub operators and independent pubs. In addition, consumer demand for casual dining chains, which have traditionally competed against pubs, has grown significantly in recent years, although recently casual dining supply has been in decline. There can be no assurance that we will be successful in managing competition from casual dining chains by changing our formats and food offering to meet consumer demand. Moreover, to the extent that venues such as coffee shops or delicatessens are able to offer alcoholic drinks, we may face increased competition. In addition, we also face increased competition in relation to our late night venues. We may not be successful in competing against any or all of these alternatives and a sustained loss of customers to other pubs, bars, casual dining chains or other venues could have a material adverse effect on our business, operating results, financial condition and prospects.

Consumer preferences and perceptions in relation to drink and food may continue to change and we may be unable to adapt to such changes.

Our business is affected by consumer preferences and perceptions in relation to both drink and food, as well as demographic trends over time. For instance, many consumers are placing increasing importance on dietary and nutritional content, as well as the provenance of locally sourced ingredients. Consumers are also increasingly demanding all-day formats and increasingly preferring premium drinks. In addition, with the advent and prevalence of new drink-driving laws and entertainment alternatives, such as social media, younger generations now require more non-traditional offerings to be attracted to pubs. The United Kingdom pub industry has, as a result of these and other factors, been experiencing a steady decrease in the number of tenanted and leased pubs in recent years.

We have responded to these trends by offering a greater number of healthy options in our menus, increasing our focus on our breakfast offering and expanding our premium drink offering. There can be no assurance, however, that we will continue to be able to respond to these or other trends in consumer preference by introducing changes to our formats, brands, drink and food offerings and premises or otherwise. Moreover, our ability to respond to changes in consumer behavior is also conditioned on the willingness of each of our publicans to work with us to implement our suggested changes. Any failure by us to anticipate, identify and respond to trends in consumer preferences could have a material adverse effect on our business, operating results, financial condition and prospects.

Our management may not be able to successfully implement our strategic and financial objectives.

We recognize that the Transaction presents a unique opportunity for us to gain scale in the UK pub market and to capture value through the integration and enhancement of the combined group's estates. We seek to do this by, among other things, continuing to invest in our managed pubs segment, supporting our publicans in operating better pubs, implementing opportunistic conversions to our operating models and formats (e.g., conversions from publican partnership pubs to managed pubs), exploiting the potential offered by the Craft Union operating model (e.g., conversions of certain of our fully-managed pubs into operator-managed pubs), realizing the significant cost savings offered by the combination of Stonegate Group and Ei Group and making strategic disposals in the ordinary course of business. See "Summary—Our Strategies."

There can, however, be no assurance that we will be successful in implementing our strategies. In particular, we may be required to invest more than we have currently budgeted in order to implement our investment and conversion plans and we may not realize anticipated levels of EBITDA-based increase or cost efficiencies from such investments or conversions. In addition, we may not have sufficient expertise, resources or time to build the necessary support infrastructure to achieve our strategies in the desired timeframe or at all. Management's time and attention from daily operations may also be diverted. The measures we may need to implement to respond to the challenges presented by the COVID-19 pandemic or any other unforeseen circumstances could also require us to adjust or abandon our plans. If we are unsuccessful in implementing our strategic or financial objectives, or if we are required to spend more than we anticipated to achieve those objectives, our business, operating results, financial condition and prospects could be materially adversely affected.

We could face partner/labor shortages, increased labor costs and other adverse effects of varying labor conditions.

The development and success of our managed pubs depend, in large part, on the efforts, abilities and experience of the general managers who manage and operate our pubs. The development and success of the leased and tenanted pubs we have acquired as part of the Transaction depends, in large part, on the efforts, abilities and experience of publicans. Further, licensed restaurants, cafes and bars may offer attractive alternative business opportunities for the type of partners that we would like to work with. If we are not successful in attracting enough high quality prospective managers and publicans, it could have a material adverse effect on our business, operating results, financial condition and prospects. In addition, our success depends in part upon our ability to attract, motivate and retain a sufficient number of qualified employees, including head office employees, regional managers, pub managers, kitchen staff, bar staff and wait staff. Qualified individuals are needed to fill these positions and our inability to recruit and retain such individuals may delay the planned openings of new pubs or result in our existing pubs being understaffed, which could compromise the level of service provided by these pubs. Any significant delay in finding qualified employees or to the extent a significant proportion of our managers or employees are not able to work due to the COVID-19 pandemic, our operating results and financial condition could be adversely affected. We may also incur additional costs in relation to training new employees as a result of high turnover of our employee base. Specifically, in relation to our late night venues, we generally face a relatively higher turnover of employees. We may not be able to find qualified employees for such venues in time or at all. Furthermore, in the aftermath of temporary personnel initiatives implemented as a result of the COVID-19 pandemic, our relationship with our employees may deteriorate and may result, among others, in strikes, work slowdowns, requests for additional compensation or healthcare benefits that could increase costs, and we could experience labor disputes or disruptions as we continue to implement our COVID-19 mitigation plans. Thus, the steps undertaken to reduce labor costs as a result of the COVID-19 pandemic may negatively impact our ability to attract and retain employees and our reputation may suffer as a result.

Possible restrictions on the free movement of labor resulting from Brexit could lead to further difficulties in finding qualified employees. In addition, competition for qualified employees or increases in remuneration by our competitors could require us to pay higher wages to attract sufficiently qualified employees, which could result in higher labor costs. Further, increases in the minimum hourly wage, employment tax rates or levies, related benefits costs or similar matters over which we have no control may increase our operating costs, all of which could adversely affect our business, operating results, financial condition and prospects.

Changes in regulations to which we are subject or the introduction of new regulations to which we may become subject could have a negative effect on our business.

Stonegate Group's and Ei Group's pubs are subject to laws and regulations that affect their operations, including those related to employment, minimum wages, alcoholic drinks control, late-night levies, drink-driving, pub licensing, leisure (gaming) machines, competition, health and safety, environmental liabilities, sanitation, data protection, access for the disabled and, in the case of Ei Group Publican Partnerships, MRO under the Pubs Code. The responsibility to comply with these regulations is typically distributed based on operational control over the relevant sites. Generally, we are responsible for regulatory compliance in respect of Ei Group Managed Operations whereas publicans are responsible for regulatory compliance, including in respect of employment regulations, for the pubs they operate. These laws and regulations impose a significant administrative burden, as managers and publicans have to devote significant time to ensure compliance with these requirements and therefore have less time to dedicate to trade.

In light of the COVID-19 pandemic, the UK government has prescribed detailed guidelines to maintain social distancing and hygiene measures in our pubs to prevent the spread of COVID-19. These measures have increased, or if additional or more stringent measures were to be imposed in the future, will increase, the burden on management and publicans and could also lead to findings of material breaches and related enforcement action for failures to comply with such requirements, which could adversely affect our operating results and, in turn, adversely affect our financial condition and prospects.

The risks related to some of the key regulations to which we are subject are discussed below.

a. Pubs Code provides certain publican tenants the MRO option

On November 18, 2014, the UK Parliament introduced a series of amendments to the Small Business, Enterprise and Employment bill which contained the Pubs Code that came into effect on July 21, 2016. These include the requirement for large pub-owning businesses that own 500 or more tied pubs in England and Wales to provide their tenants and leaseholders, at certain specified times or on the occurrence of certain specified events (such as five-yearly rent reviews), with the MRO option that is overseen by an independent adjudicator. Such independent adjudicator has, among others, the power to require pub-owning businesses to pay in each financial year a levy towards the adjudicator's expenses. Moreover, the Pubs Code also discourages the increases in price for beer (CPI+3%), other alcoholic drinks (CPI+8%), products other than alcoholic drinks (CPI+20%) and services (CPI+20%), which can limit our ability to pass on cost increases to publicans. It contemplates fines of up to 1% of the pub-owning group's annual turnover for breach of the provisions of the Pubs Code.

The MRO option enables some occupational tenants to opt-out of the supply tie at certain points or after certain events during the term of their lease agreement and occupy the premises on a standard commercial property lease, paying rent only. Accordingly, there is a risk that all or a substantial majority of the Ei Group's publicans with long-term leases may opt for the MRO option over a period of time and convert their lease agreements to free-of-tie arrangements. In the event that a large number of Ei Group's publicans elect to invoke this option, while our income derived from the supply of tied drinks products would be partially offset by increases in rent, our total income would likely decline. While the introduction of the MRO has not yet had a material impact on Ei Group's business, there can be no assurance that this will continue to be the case. In particular, as of September 30, 2019, 1,626 out of Ei Group's 4,011 (40.5%) sites operated on a tied lease and from the date of the introduction of the Pubs Code to September 30, 2019, there have been 1,662 rent review or agreement renewal events which could potentially have triggered an MRO request. As required under the Pubs Code, Ei Group issued 385 MRO offers in response to requests by tenants of which 213 have been concluded by way of mutually agreed tied deals and 52 have resulted in new mutually agreed MRO terms. In addition, 3 pubs have been sold, 29 leases have been repurchased from the occupational tenant with the balance of 88 pending. Of the outstanding 88, 36 have been referred to the Pubs Code adjudicator for determination. The Pubs Code also contemplates other rent setting provisions beyond the MRO.

Furthermore, while the Pubs Code has now been in place for more than three years, there still remains a lack of clarity around some areas of the Pubs Code leaving elements open to interpretation. In addition, the Pubs Code is currently undergoing a consultation and statutory review. There is no clear indication as to the likely outcome of such review and this adds extra uncertainty about the interpretation and application of Pubs Code going forward.

b. Employment regulations provide certain rights and protections to our employees, and changes to these regulations may reduce our ability to operate our business efficiently.

The Working Time Regulations (the "WT Regulations") provide that workers may only be required to work a 48-hour week, although they can choose to opt out and work longer if they wish. The WT Regulations also set out rights and protections in areas such as minimum rest time, days off and paid leave. A substantial majority of our employees (but not including our general managers) are covered by the WT Regulations. The existence of the ability to opt out of, and the guidance as to who is covered by, the WT Regulations may change in the future. In addition, under the Part-Time Workers (Prevention of Less Favourable Treatment) Regulations 2000 (the "Part Time Workers Regulations"), part-time workers can claim the same employment and related rights as full-time workers. The Fixed Term Employees (Prevention of Less Favourable Treatment) Regulations 2002 (the "Fixed Term Employees Regulations") similarly provide that employees engaged under fixed-term contracts can claim the same employment and related rights as employees engaged under permanent contracts.

The WT Regulations, Part Time Workers Regulations and Fixed Term Employees Regulations, and any changes to such regulations, may impose constraints on our ability to deploy employees efficiently to a degree that could adversely affect our operating costs and, in turn, our operating results, financial condition and prospects. In addition, there are additional regulatory constraints for employees under the age of 18, including among others, with regard to maximum working hours, working times and holiday entitlement.

In April 2016, the UK government announced the introduction of a National Living Wage, which replaced the national minimum wage for all working people aged 25 and over in the United Kingdom. The National Minimum Wage remained in place for all working people under the age of 25 who are at least school leaving age in the United Kingdom. In April 2019, the National Minimum Wage for people from school leaving age in the United Kingdom to 18 was increased to £4.35 per hour. At the same time, the National Minimum Wage for people aged 18 to 20 and for people aged 21 to 24 was increased to £6.15 per hour and £7.70 per hour, respectively, while the National Living Wage for people aged 25 and over was increased to £8.21 per hour. In April 2020, the National Minimum Wage for people from school leaving age in the United Kingdom to 18 was increased to £4.55 per hour. At the same time, the National Minimum Wage for people aged 18 to 20 and for people aged 21 to 24 was increased to £6.45 per hour and £8.20 per hour, respectively, while the National Living Wage for people aged 25 and over was increased to to £8.72 per hour. As Stonegate Group employs a large number of staff at the National Minimum Wage or the National Living Wage, any further increase in the National Minimum Wage or the National Living Wage, or their scope, could affect our operating costs. Furthermore, we may be required to raise the salaries of our other employees in order to preserve the pay differential vis à vis our employees who are employed at the National Minimum Wage or the National Living Wage. Any resulting increase in labor costs could, in turn, have a material adverse effect on our business, operating results, financial condition and prospects.

To the extent our employees are required to wear a uniform, we are required to record their cost as an expense to ensure that the National Minimum Wage or the National Living Wage, as applicable, is met. In 2018, HM Revenue & Customs ("HMRC") identified numerous employers in the United Kingdom that allegedly failed to pay the correct minimum wage. Charging staff for uniforms (or expecting them to fund their own independently), failing to pay overtime and issues around job-related travel expenses were some of the reasons given by HMRC for salaries falling below the minimum wage threshold. Identified employers, including us, were required to compensate employees and pay fines against this potential liability. In addition to companies being required to make compensation payments and pay fines, individuals may be also subject to criminal prosecution for deliberately not complying with the relevant legislation in relation to minimum wage standards and anyone found guilty may be disqualified from being a company director for up to 15 years.

c. Government legislation, regulation and campaigns in the United Kingdom relating to the consumption of alcohol and drink-driving laws may reduce demand for our alcoholic drinks.

In the United Kingdom, consumption of alcoholic drinks has become the subject of considerable social and political attention in recent years due to increasing public concern over adverse health consequences associated with the misuse of alcohol and alcohol-related social problems, including the impact of drink and obesity related health issues on the National Health Service budget in the United Kingdom, drink-driving, binge drinking and under-age drinking.

The government in the United Kingdom periodically imposes measures relating to the consumption of alcohol, including the reduction of licensing hours, raising the legal drinking age, the introduction of minimum prices for alcoholic drinks and the introduction of a mandatory code imposing certain conditions on all alcohol retailers, such as a ban on indoor smoking. For example, in 2018, Scotland introduced minimum prices for alcoholic drinks and the Royal Assembly of Wales has also recently adopted minimum prices for alcoholic drinks. Any such measures could reduce our flexibility to implement profitable business strategies and have a material adverse effect on our business, results of operations, financial condition and prospects.

As car drivers and passengers account for a significant proportion of pub customers in the United Kingdom, the implementation of any legislation to reduce further the legal blood alcohol limit for drivers in the United Kingdom, or an increase in public service advertising warning against the dangers of drink-driving could result in customers in our rural and suburban pubs drinking less or frequenting pubs less often, which could lead to a reduction in revenue in those pubs and a decline in our income from the sale of alcoholic drinks. For example, in 2014, Scotland introduced new legislation which decreased the legal blood alcohol limit. While such legislation has not had a material impact on our operations, there can be no assurance that our operations would be similarly unaffected if the UK government were to impose similar legislation across the rest of the United Kingdom. Further reductions in the legal blood alcohol limit could therefore have a material adverse effect on our business, operating results, financial condition and prospects.

d. The late-night levy to which we are subject may increase.

Pursuant to the Police Reform and Social Responsibility Act 2011 (applicable only in England and Wales), licensing authorities are authorized to raise a contribution from late-opening alcohol suppliers towards policing the nighttime economy. The licensing authorities also have the power to choose the period during which the levy applies every night, between midnight and 6 a.m., and decide what exemptions and reductions should apply. Certain pubs, particularly those operating in urban areas, are open after midnight, and may be subject to "late night levy" charges, which came into force in October 2012. These annual charges range between £299 for small premises and £4,440 for larger venues, and are subject to potential increases.

Even though most of our pubs have not yet had such a late-night levy imposed on them, to the extent that individual licensing authorities decide to exercise their power under the act or the government in the United Kingdom decides to increase these powers, it could result in increased costs for us or our publicans, as the case may be, and consequently could have a material adverse effect on our business, operating results, financial condition and prospects.

e. Our pub operations require licenses, permits and approvals which we may not be able to obtain and/or maintain.

Each of our pubs is licensed for, among other things, the sale of alcoholic drinks. Difficulties or failures in obtaining or maintaining required licenses or approvals or the withdrawal of such licenses and approvals as a result of the failure to comply with the terms thereof, including in relation to our late night venues, could delay or prohibit the operation of our pubs, as could onerous lease provisions limiting the use of our properties. Furthermore, if we or any of our publicans were to become insolvent, the relevant licenses could lapse and, under the UK Licensing Act of 2003 (the "UK Licensing Act"), insolvency is defined to include the approval of a voluntary arrangement proposed by the company's directors, the appointment of an administrator in respect of the company, the appointment of an administrative receiver in respect of the company or going into liquidation. If we or our publicans are unable to maintain the relevant licenses or if we or our publicans face a significant number of difficulties or failures in obtaining and/or maintaining required licenses or approvals that could delay or prohibit the operation of our pubs, that could have a material effect on our business, operating results, financial condition and prospects.

In addition, licensing requirements which affect our pubs are subject to change, and additional or more stringent requirements may be imposed on our operations in the future. This could result in us or our publicans losing licenses or having increased operating costs, which could have an adverse effect on our business, operating results, financial condition and prospects.

Furthermore, the provision of leisure machines in premises which have the benefit of a premises license is governed by the Gambling Act 2005. The Gambling Act 2005, as amended by the Gambling (Licensing and Advertising) Act 2014, includes explicit monetary limits on stakes and prizes and new social responsibility provisions requiring close supervision of games. Our pubs typically operate under gambling licenses from local licensing authorities, who have the discretion to terminate licenses that have been granted or otherwise change the licensing requirements. If our licenses are terminated, or otherwise the licensing requirements are changed, we could be required to expand significant capital or other resources to comply with the new requirements and/or could be unable to meet the new requirements, which could have an adverse effect on our business, operating results, financial condition and prospects.

f. If the UK government were to introduce initiatives that resulted in a requirement to include nutritional information on menus, this could result in additional compliance costs.

If the UK government were to introduce initiatives that resulted in a requirement for restaurants, cafes and pubs to display nutritional information on their menus, including for alcoholic drinks, this could give rise to additional compliance costs for us in relation to our managed pubs. Furthermore, such disclosure requirements would increase consumers' awareness of the nutritional content of our drink and food offerings, which may result in consumers changing their preferences.

g. The taxes and duties to which we are subject may increase.

Our activities are affected by a number of taxes and duties, such as the duty on alcoholic drinks, value added tax ("VAT") and other business taxes. Changes in law and practices that affect all or any of these matters may adversely affect our financial performance. In particular, the government in the United Kingdom imposed a duty escalator which commenced in April 23, 2009, pursuant to which duties on alcohol rise each year by 2% above the rate of inflation (based on RPI). In the March 2016 budget, duty rates on wine and made-wine at or below 22% alcohol by volume and high strength sparkling cider above 5.5% alcohol by volume rose at the same rate as RPI inflation, but the UK government froze in cash terms the duty rates on beer, spirits and other drinks above 22% alcohol by volume and still cider and lower strength sparkling cider. In the March 2017 budget, the duty rates on alcohol manufactured in, or imported into, the United Kingdom rose at the same rate as forecast RPI inflation, and in the November 2017 budget, duty rates on beer and most other spirits and ciders were frozen. In the October 2018 budget, duty rates on beer and most other spirits and ciders remained frozen but specifically duty rates on wine and made-wine at or below 22% alcohol by volume and high strength sparkling cider above 5.5% alcohol by volume rose at the same rate as RPI inflation. In the March 2020 budget, duties on beer, cider and wine were frozen. Pursuant to the UK government's assistance to businesses due to the COVID-19 pandemic, we currently have the option to defer VAT payments due between March 20, 2020 and June 30, 2020 until March 31, 2021. Applicable taxes and duties could increase and/or similar taxes and duties could be imposed by the government in the United Kingdom in the future and could therefore affect our activities going forward.

To the extent that we do not, or are not able to, pass on any such duty increases to our customers in relation to our managed pubs, this could reduce our margins and could consequently have an adverse effect on our operating results, financial condition and prospects. On the other hand, to the extent that we do pass on duty increases to our customers in relation to our managed pubs by way of higher prices, this could result in decreased demand and consequently could also have a material adverse effect on our business, operating results, financial condition and prospects. Further, in relation to Publican Partnerships, duty increases will typically be absorbed by publicans but, to the extent that we do pass on duty increases to publicans which results in price increases for their customers, it could result in decreased demand of beer and other alcohol beverages by publicans' customers and consequently could also have a material adverse effect on our business, operating results, financial condition and prospects.

h. We are subject to revaluation of business rates.

In the United Kingdom, the UK government adjusts the value of business rates to reflect changes in the property market approximately every five years. The most recent revaluation came into effect in England, Scotland and Wales on April 1, 2017 (based on open market rental values from April 1, 2015) with the next revaluation expected to come into effect in 2021. At revaluation, all properties are given a new ratable value and multiplier which, depending on the underlying movement in the value of the property, can have a significant impact on the tax liability due on the property. In addition, and despite the UK government's recent announcement regarding an increase in business rate reliefs for smaller UK businesses (including business rate reliefs for businesses with a ratable value of less than £51,000), UK government may limit such business rates relief for larger corporations or to certain industries, which could increase the monetary burden on some businesses in the United Kingdom. Pursuant to the UK government's assistance to businesses due to the COVID-19 pandemic, we have received a business rate tax holiday for the tax year 2020-2021. However, any future revaluation adjustments of the business rates, or any changes to the business rates following the UK government's annual budget announcements, could result in increased costs in relation to our managed pubs and consequently could have a material adverse effect on our business, operating results, financial condition and prospects. Business rates for Stonegate Group amounted to £(38) million for the 52 weeks ended September 29, 2019, representing 5.6% of its operating costs for this period.

We may not be able to maintain our return on investment from our capital projects.

Historically, we have identified priorities for investment in our estate through biannual estate reviews and have put in place a multi-stage estate review process to ensure a disciplined approach to investment across our pubs. Since we began trading, and through January 19, 2020, we have refurbished 621 of Stonegate Group's pubs. Following the Transaction, in addition to investments in the Stonegate Group estate, we also plan to make investments in the Ei Group's estate. Following these investments, there can be no assurance that we will continue to achieve our target return on investment with respect to our uninvested sites, whether as a result of incorrect assumptions in evaluating the investment potential or otherwise, or that we will successfully identify the sites that are most in need of investment or are most suitable for conversion into different operating models or formats. In addition, in order to remain competitive, evolving industry trends with respect to the frequency of capital investment may require capital investments to be made in pubs more frequently than we have done in the past or plan to do in the future. We cannot guarantee that we will be able to make capital investments on a shorter timeline than we have done in the past should such trends emerge.

We may also not be successful in deploying capital expenditure for maintenance across our estate, particularly in light of the significant increase in the size of our estate following the Transaction and our efforts to manage cash outflows and preserve and build liquidity while we suffer the impacts of the COVID-19 pandemic, in a timely manner or at all. Furthermore, although we have historically financed our capital expenditure from cash flows from operations, there can be no assurance that we will not in the future encounter difficulties in financing our capital expenditure, particularly in light of our reduced cash flow from operations due to the COVID-19 pandemic. Any of the foregoing may have a material adverse effect on our business, operating results, financial condition and prospects.

Additionally, where we present Stonegate Group Return on Investment in this Offering Memorandum, we have not included in the calculation the results of pubs that have traded for fewer than 52 weeks following such investments. For example, for the 156-week period ended April 12, 2020, 116 pubs that Stonegate Group invested in have not been included in the calculation of Stonegate Group Return on Investment because those pubs have not traded for 52 weeks following such investments. Where we present Ei Group Return on Investment and Ei Group Publican Partnerships Return on Investment in this Offering Memorandum, they do not include return on investment for pubs that have traded for three months or less following such investment. Similarly, where we present Ei Group Managed Operations Return on

Investment and Ei Group Managed Investments Return on Investment in this Offering Memorandum, they do not include return on investment for pubs that have traded for six months or less following such investment. In particular, had the results of the pubs which have been invested but have not yet traded for six months following such investments been included, the Ei Group Managed Operations Return on Investment and Ei Group Managed Investments Return on Investment for each period shown in this Offering Memorandum would likely have been lower.

Revenue from sales of beer may decline and have a negative effect on our business.

A significant portion of our revenue is derived from the sale of beer to customers and publicans, respectively. Although there is an increasing consumer demand for craft beers and premium lagers, if revenue from sales of beer were to decline in the United Kingdom and we are not able to develop our income streams from products other than beer, a decline in the United Kingdom beer market could have a material adverse effect on our revenue or our ability to attract customers to our pubs, which could adversely affect our business, operating results, financial condition and prospects.

Increases in student tuition fees and other changes in the welfare system in the United Kingdom have had, and may continue to have, a negative effect on our business.

Our customer groups include, among others, blue collar workers and students. Recent changes to the welfare system have had an impact on the disposable income of blue collar workers and budgets introduced by the UK government in recent years contain further cuts to the welfare system. Similarly, increases in student tuition fees for undergraduates and postgraduates, coupled with the general economic difficulties in the United Kingdom, have had an adverse impact on student trade for our pubs. Such adverse impact could be exacerbated in future by further changes to student funding, such as the removal of student maintenance grants effective as of September 2016. In addition, disposable income of customer groups such as blue collar workers and students may have been particularly adversely impacted as a consequence of business closures and the economic slowdown caused by the COVID-19 pandemic. Any future cuts to welfare spending, increases in student tuition fees or other costs of higher education or other events that potentially reduce the disposable income of these customer groups could adversely affect our business, operating results, financial condition and prospects.

A significant proportion of our pubs operate in town centers, and if consumers increasingly choose alternative shopping channels or locations, trade at our pubs could be adversely affected.

A significant proportion of our managed pubs are located in town centers, and the day-time trade of these pubs is reliant on customers visiting town centers for shopping trips. As such, we are exposed to the risk of consumers increasingly choosing alternative shopping channels or locations, such as online shopping and out of town retail parks, thereby resulting in a decrease in the number of visitors to town centers and the number of potential customers at our pubs. If shoppers continue to migrate away from town centers, this may also ultimately result in the closure of shopping centers and other outlets located in town centers. This could in turn lead to town centers becoming vacant and consumers travelling to larger cities for shopping, which could exacerbate the risk to us. Any continuing trend in migration away from town centers could accordingly have an adverse impact on our business, operating results, financial condition and prospects.

Subscription prices for broadcasting services relating to major sporting events may increase.

We have subscription services for Sky TV, BT Sport, Amazon Prime and other large screen offerings for broadcasting major sporting events, such as the World Cup, European Championships, Champions' League, FA Cup, Rugby World Cup, Six Nations and The Ashes. Subscription prices for these services may increase and it may become less profitable to broadcast such events. For example, in June 2018, Sky TV and BT Sport announced price increases above inflation, which is expected to affect the pub industry as a whole according to the BBPA. As of the 2019-20 campaign, Sky TV and BT Sport are expected to broadcast 128 and 52 Premier League games per season, respectively, and alongside their announcements regarding an increase in pricing, both content providers are introducing new training tools for licensees and commitments to expanded programming, all of which is expected to increase costs related to broadcasting sporting events at our sites. While we regularly consider our large screen offerings, we cannot guarantee that our subscription prices and related costs will remain at profitable levels. In addition, the market may become more fragmented resulting in more subscription services being needed. All of these factors could have an adverse effect on our business, operating results, financial condition and prospects.

The Transaction or future acquisitions may prove unsuccessful or strain or divert our resources.

To date, we have grown through the acquisition of other businesses, pubs, bars and venues, and we seek to selectively continue this growth strategy in future. Successful growth through future acquisitions is dependent upon our ability to identify suitable acquisition targets, conduct appropriate due diligence, negotiate transactions on favorable terms and ultimately complete such transactions and integrate the acquired businesses, pubs, bars or venues into our group. There can be no assurance that we will be able to generate expected margins or cash flows, or to realize the anticipated benefits of the Transaction or future acquisitions, including growth or expected synergies and costs savings. The expected benefits of these acquisitions, in particular, the anticipated synergies and cost savings, and growth opportunities, may not be realized in full (or not at all) or may take longer to realize than planned. There can be no assurance that our assessments of and assumptions regarding Ei Group and the acquisition targets and/or expected synergies will prove to be correct, and actual developments may differ significantly from our expectations.

Further, we may not be able to integrate Ei Group or future acquisitions successfully into our group or turn around businesses that may previously have been insolvent. Such integration or rehabilitation may require more investment than we expect, and we could incur or assume unknown, unforeseen or unanticipated liabilities or contingencies with respect to customers, employees, suppliers, government authorities or to other parties, which may impact our operating results. The process of integrating Ei Group and other businesses, pubs, bars or venues that we may acquire in the future may be disruptive to our operations and may cause an interruption of, or a loss of momentum in, such businesses or a decrease in our results of operations as a result of difficulties or risks, including unforeseen legal or regulatory issues, such as in relation to compliance with data protection laws and regulations, as well as contractual and other issues. The integration of Stonegate Group and Ei Group and other future businesses that we may acquire are also subject to a number of operational and other risks, which may be difficult to overcome. These include, difficulty in standardizing information and other systems, difficulty in realizing operating synergies, diversion of management's attention from our day-to-day business, potential loss of key employees, customers, suppliers and agents and failure to maintain the quality of services that we have historically provided. Ei Group and other acquired companies or businesses may have different corporate cultures and practices and we may not be able to successfully assimilate them with our culture and practices, and as a result, may among others, be unable to retain key employees from such acquisitions. Any of these risks could have a material adverse effect on our business, operating results, financial condition and prospects.

Moreover, any acquisition may result in the incurrence of additional debt, which will increase our interest expense. Instruments used to finance the acquisitions are subject to restrictive covenants which limit our flexibility in operating our business. The increased financial indebtedness and interest could reduce our profitability and harm our business.

The acquisition agreements entered into in connection with some of our acquisitions may not fully cover us against claims and liabilities that may arise in connection with such acquisitions.

Over the past few years, we have acquired certain pubs pursuant to the Fever Bars Acquisition, the Be At One Acquisition, the First Novus Acquisitions, the Large Bars Acquisition, the Sports Bar & Grill acquisition, the Second Novus Acquisitions, as well as the acquisitions from, among others, Intertain Sellers, Faucet Inn Sellers, Punch Taverns and Ei Group. The warranties and other contractual protections that we have received from the sellers in these acquisitions are limited and may not be sufficient to fully cover us against claims and liabilities associated with these acquisitions that may arise in the future. While we have taken into account such potential claims and liabilities when determining the consideration to be paid under these agreements, we cannot guarantee that we have been able to identify all claims and liabilities that may arise in respect of these acquisitions. In the event potential claims or liabilities are greater in amount than we have estimated or above the agreed monetary limit, we may not be covered against these claims and liabilities by the sellers in these acquisitions.

While we have had an opportunity to inspect each of the pubs that we have acquired upon the successful assignment to us of certain leases, we cannot guarantee that we have identified any or all material liabilities relating to each of these pubs and that may cause us to incur losses in the future. Further, under the relevant acquisition agreements, we may experience delays or other difficulties in enforcing indemnity claims should they arise and may be required to pay amounts with respect to such claims without reimbursement.

To the extent that JDW, Faucet Inn Sellers, Punch Taverns and Ei Group and the sellers in the Be At One Acquisition, the First Novus Acquisitions, the Fever Bars Acquisition, the Second Novus Acquisitions, the

Large Bars Acquisition and the Sports Bar & Grill acquisition are liable for damages with respect to such claims, such liabilities may significantly diminish the value of the assets we have purchased from those sellers. Our limited ability, under the acquisitions agreements entered into with these sellers to recover losses or damages arising from these pubs could have a material adverse effect on our business, operating results, financial condition and prospects.

Our revenue, cash and inventory levels fluctuate on a seasonal basis and are affected by public holidays, the timing of major sporting events and weather conditions.

Footfall at our pubs is impacted by seasonality and is highest during the Christmas period, Easter, bank holiday weekends and end-of-the-month salary weekends. In addition, footfall at many of these pubs, particularly those with Sky TV, BT Sport or other large screen offerings, is affected by major sporting events, such as the World Cup, European Championships, Champions' League, FA Cup, Rugby World Cup, Six Nations and The Ashes. British teams' performance in those events can also have an impact on footfall, which if materially different from our expectations, could have an adverse effect on our business. For example, if a British team does not progress beyond the group stages of the World Cup or the European Championship, this generally represents a lost opportunity in terms of footfall and drinks and food sales at our pubs. Moreover, measures taken in light of the COVID-19 pandemic, such as the cancellation or postponement of sporting events, holding sporting events behind closed doors or with a limited number of spectators, and regulating customer behavior at pubs in line with UK government's guidelines (for example, ensuring broadcast of sporting events at volumes below conversational levels, taking steps to ensure that people do not raise their voices to avoid potential risks from aerosol transmission, reconfiguring indoor spaces to ensure that customers remain seated) could also have an impact on footfall in our pubs, which could have an adverse effect on our business.

Weather patterns can also affect footfall across our pubs. Persistent rain, snow or other inclement weather, particularly during the summer months, over our peak trading periods or over weekends, adversely affects us. Certain of our pubs, namely those with terraces or significant outdoor space, are particularly vulnerable to rain and other bad weather, as the inability to use their outdoor space prevents such pubs from maximizing their trading capacity.

If revenue during our main trading periods is lower than expected, or if the United Kingdom experiences adverse weather conditions, this could have an adverse effect on our operating results, financial condition and prospects. For a discussion of the impact of seasonal factors on our results of operation, see "Stonegate Group Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Our Results of Operations—Seasonal Effects." and "Ei Group Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Ei Group's Results of Operations—Seasonal Effects."

Seasonal fluctuations also impact our inventory, working capital and liquidity levels. We must carry a significant amount of inventory before the peak selling periods, which is also reflected in our liquidity with a certain time lag due to the payment terms that we have agreed with our suppliers. If net sales during our peak trading periods are significantly lower than we expect, we may be unable to adjust our working capital in a timely fashion. Any of these events could have a material adverse effect on our business, operating results, financial condition and prospects.

We rely on a limited number of suppliers and distributors and, if such suppliers continue to consolidate, or face financial difficulties, prices we pay to our suppliers may rise or our operations may be disrupted.

The brewing and distribution industry in the United Kingdom has seen a movement towards consolidation in recent years, which reduces the number of suppliers and distributors available to us and may have the effect of raising prices that we pay. We rely on an increasingly limited number of major brewing companies for the supply of beer and other drink products, with Stonegate Group's leading suppliers during the 52 weeks ended September 29, 2019 being Heineken UK, Molson Coors (UK), Matthew Clark Wholesale Limited, Diageo, Coca-Cola European Partners and Budweiser Brewing Company. We also enter into distribution arrangements with some of our suppliers. In addition, our drinks supply contracts must be renewed from time to time. While we negotiate contract renewals where desirable, we cannot guarantee that we will be successful in obtaining renewals of our existing contracts with our suppliers on the same or similar terms, or at all. Failure to timely agree renewals with our suppliers and distributors, termination of these agreements or a variation of its terms could cause distribution or supply disruptions and could increase costs if we are required to find alternative suppliers and distributors, which could have a material adverse effect on our business, operating results, financial condition and prospects.

In addition, we primarily source our food supply from a single supplier. If the trend in consolidation in the brewing and distribution industry were to continue, this could further increase our reliance on a limited number of suppliers and distributors and, therefore we would continue to be subject to their bargaining power, which could have the effect of increasing the prices we pay for our supplies. Furthermore, if our suppliers and distributors face financial difficulties, including due to the COVID-19 pandemic, fail to deliver the agreed level of service, we could encounter difficulties replacing these suppliers, which could result in disruptions to our business and/or significant costs being incurred. Moreover, any disaster in our head office could seriously disrupt our daily operations. Any of the foregoing could have an adverse effect on our business, operating results, financial condition and prospects.

An increase in global food and drink prices and energy costs may negatively affect the profitability of our managed pubs.

Food purchases and drink costs account for a significant portion of our managed pubs' operating expenses. We also consume significant amounts of gas and electricity in our managed pubs operations, and are therefore subject to fluctuations in energy costs. Volatility in global food and drink prices and energy costs have in the past had a negative impact on our managed pubs operating margins. Prices remain subject to volatility and, if further rises were to occur (including as a result of a depreciation of the pound sterling), this could result in an increase in our costs and we may not be able to increase our prices to offset any such increases in our costs without suffering reduced revenue. Our gross margins could therefore be adversely affected, which in turn could have an adverse effect on our business, operating results, financial condition and prospects.

Leasing and ownership of a significant portfolio of real estate exposes us to possible impairments, liabilities and losses.

The property market is subject to fluctuations in value, and if the property market resumes a downturn it could lead to a sustained reduction in our freehold and leasehold property values over time, which may impact our business. Any fluctuations in the valuation of our property portfolio may impact our ability to dispose of our properties at an appropriate value, which may impede our ability to fulfil our planned business strategy. There can be no certainty that property values will recover from any downturn at any particular time, or at all. Moreover, all property valuations are inherently subjective, made on the basis of assumptions that may not reflect the true position of such property. There is no assurance that the valuations of Stonegate Group's property portfolio will reflect actual sale prices or that there will be sufficient demand or available buyers to sell any of our assets at the right value or at all. In addition, the COVID-19 pandemic may have resulted in a decline in our freehold and leasehold property values, which we are unable to exactly quantify at this time. As of and for the 28 weeks ended April 12, 2020, we have recognized £24 million of impairment charge for property, plant and equipment due to the impact of the COVID-19 pandemic. See "Recent Developments—Impairment Review." We can provide no assurance that a further material impairment loss of assets will not occur in a future period, and the risk of future material impairments has been significantly heightened as result of the effects of the COVID-19 pandemic on our business. Further impairment losses could have a material adverse effect on our business, operating results, financial condition and our ability to secure financing.

Approximately 64% of Stonegate Group's property portfolio (based on number of sites) was short leasehold as of September 29, 2019 and 10% of Ei Group's property portfolio (based on number of sites) was leasehold as of September 30, 2019. In addition, Ei Group has a number of commercial non-pub properties or areas used for purposes ancillary to pubs (such as car parks or gardens) where the associated pub is held freehold, but the non-pub property is either wholly or partly under a leasehold title (together with our leasehold pubs, the "Leasehold Properties"). Stonegate Group's short leaseholds have unexpired lease terms of less than 50 years and are subject to periodic rent reviews and renegotiation of rents when leases are renewed. Rents may increase such that they affect the economic viability of one or more of such properties. Further, as leases underlying our pubs, bars or venues expire, we may be unable to negotiate a new lease or lease extension, either on commercially acceptable terms, or at all, which could cause us to close our pubs in desirable locations. As a result, our sales and our brand building initiatives could be adversely affected.

Furthermore, we are generally not entitled to cancel leases, and if an existing or future pub is not profitable, and we decide to close it, we may nonetheless be committed to perform our obligations under the applicable lease, including, among other things, paying the base rent for the balance of the lease term. Also, in case of some of our leasehold properties, the landlord may have an option to break the lease with no compensation payable to us. If any such options were exercised, we may be deprived of the capital value in the relevant leasehold properties as well as ongoing income. Moreover, a majority of our leasehold properties contain forfeiture provisions pursuant to which the landlord may terminate the lease upon the insolvency of the tenant. The termination of any such lease by a landlord could deprive us of any capital value in the relevant leasehold interest as well as the ongoing income from the relevant property. Any of the foregoing factors could have a material adverse effect on our business, operating results, financial condition and prospects.

Additionally, certain of our leasehold properties are or may in the future become subject to disputed claims between us and the landlords of those leasehold properties. For example, under certain of our lease agreements landlords can, and occasionally do, challenge the permissibility of the uses to which we put the properties subject to those leases, and in some cases our landlords may be required to provide consent before we are able to make changes to the formats at certain of our leasehold pubs. In addition, in light of the COVID-19 pandemic, there may be disputes in the future between us and the landlords of our leasehold sites in relation to the deferral of rent payments for the duration of the temporary closure of our pubs and other related issues. Our inability to successfully resolve disputes between us and the landlords of the leasehold pubs that we own or operate could result in a material adverse effect on our business, results of operations, financial conditions and prospects.

Furthermore, a limited number of our freehold and leasehold agreements contain covenants prohibiting the operation of public houses on the premises and some of our publican partnership properties are and may continue to be subject to restrictive covenants or title conditions that for example limit the sale of alcohol on the premises, prohibit their operation as a pub or only allow use of the property for residential purposes. We have been operating pubs on several premises that are subject to such covenants and may, as a result, be in breach of these covenants, although we have not faced challenge on these grounds so far, however, a successful claim by a party claiming the benefit of such a covenant or condition might result in the cessation of the current use and frustration of the relevant occupational lease and could limit our ability to dispose of or re-let the relevant property. While insurance can be taken out to address these risks, there can be no assurance that we will have taken out title indemnity insurance in respect of the breach of those covenants or conditions.

Moreover, our lease agreements typically contain covenants relating to the repair and condition of the property. We do not review the state of repair or condition of our pubs on a regular basis and may, from time to time, be in breach of these covenants. Moreover, our landlords may require us to carry out works to our properties in order to maintain them to the standard required by the lease at any time during the term of the lease and also at the end of the lease. Furthermore, where the interest held in a property is comprised either wholly or partly under a leasehold title and that property is damaged or destroyed such that business cannot be operated from that property until rebuilding or repair work is undertaken, the landlord may have a right to break the lease if the property cannot be rebuilt within a certain period. In addition, in respect of both freehold and the Leasehold Properties, there can be no assurances that the property can be rebuilt within a certain specified period. In such circumstances, our operational tenants may cease to operate their business at the relevant freehold or leasehold properties because (i) it is not viable for them to wait for rebuilding or repair; or (ii) they may wish to continue to operate from an alternative site and then chooses not to return; or (iii) they may lose their license to operate. Thus, such damage or destruction could deprive us of cash flow of capital value in the relevant freehold or leasehold properties and/or ongoing income from operational tenants.

Additionally, a small number of our properties have uncertain title, as a result of which either our or our landlords' ability to own the freeholds or leaseholds, respectively, to those properties can potentially be challenged. If, due to these reasons, we are unable to continue to occupy and operate certain of our pubs, that could result in a material adverse effect on our business, operating results, financial condition and prospects.

The rent determination and review arrangements in lease and tenancy agreements can lead to decreased rents.

Occupational leases granted by Ei Group contain open market rent review provisions. It is possible that rents from these pubs could decrease if the open market rental value at the time of review is less than the rent then payable. Moreover, regardless of the terms of the relevant rent review provision and in accordance with the Pubs Code, we may agree or be required to lower the rent payable, as appropriate, in light of economic or other circumstances. In addition, some of the tenancy agreements and leases for Ei Group's pubs also provide for annual rent reviews by reference to negative movements in the RPI or the consumer price index ("CPI"). A negative RPI or CPI would reduce the rents payable in respect of those pubs. Additionally, in light of the impact of the COVID-19 pandemic, we may not be able to negotiate competitive rents or may need to continue to provide rent concessions and rent holidays. Any of the foregoing developments could decrease our revenues which, in turn, could have a material adverse effect on our business, operating results, financial condition and prospects.

We will not control the operations of our leased and tenanted pubs and commercial properties and may not be able to optimize our share of the profit from such properties.

The leased and tenanted pubs and commercial properties that we have acquired from Ei Group are let to tenants who operate the properties as their own businesses, subject to the terms of their leases or tenancy agreements. Because, following the Transaction, a substantial portion of our revenues derive from rent and revenues from the provision of beer and other drink products to our tied publicans, declining sales and pub failures as a result of factors over which we have no direct control, such as poor pub management, poor or declining food quality and safety, ineffective marketing, changing local demographic trends or otherwise as a consequence of the COVID-19 pandemic may result in a decline in our operating results. In addition, publicans may buy beer and other drink products from other suppliers or tamper with equipment monitoring the flow of draught beverages in contravention of their tied agreements with us, and enforcement of such agreements may not be effective. Any of the foregoing risks could have a material adverse effect on our business, operating results, financial condition and prospects.

Licensees may fail to pay amounts due promptly or at all.

There is a general risk that rental and other payments owing to us from publicans (including, for example, for the supply of beer) will not be paid on the due date or will not be paid at all. This is exacerbated by the financial challenges faced by our publicans as a consequence of the COVID-19 pandemic. A sufficient aggregation of such late or non-payments would affect our profitability. Continued failure by a particular publican to pay rental and other payments due to us will usually result in the termination of the publican's lease and either the closure of the pub or business or our leasing to a new publican. Where a pub is leased to a new publican, there may also be a period following the departure of the former publican during which cash flow to us is reduced. The relevant property may also become vacant which would reduce revenue and our ability to recover certain operating costs (which would result in us incurring additional expenses until the property is re-let). In addition, the rent and other payments payable by the replacement publican may not be as high as those paid by the former publican. These risks could have a material adverse effect on our business, operating results, financial condition and prospects.

Our ability to manage our properties could be frustrated by compulsory purchase orders.

Any property in England and Wales could at any time be acquired, among others, by a local authority or government department, generally in connection with proposed redevelopment or infrastructure projects. In the event of a compulsory purchase order being made in respect of a property, compensation would be payable on the basis of the open market value of all owners' and publicans' proprietary interests in that property at the time of the related purchase. However, the amount received from the proceeds of compulsory purchase of the relevant freehold could be inadequate to cover the loss of cash flow from such property. Further, there is often a delay between the compulsory purchase of a property and the payment of compensation, largely dependent upon the ability of the property owner and the entity acquiring the property to agree on the open market value.

Any delay in our receipt of funds from a compulsory purchase could have an adverse impact on our revenues or affect our business, operating results, financial condition and prospects.

Negative publicity relating to one of our pubs or brands could reduce revenue at some or all of our pubs.

Although our pubs do not operate under a single brand, we may, from time to time, be subject to negative publicity relating to alcohol consumption or quality, food quality, bar facilities, health inspection scores, COVID-19 cases being traced back to our pubs, employee or tenant relationships, food contamination, alcohol-related violence or other matters at one or more of our pubs. The rise of online news reporting, discussion forums and social media has increased the risk to brands of attracting negative publicity given the ease and speed with which such information is disseminated. We are particularly susceptible to such risks given the high degree of engagement with social media by certain of our key customer groups such as the student population. Adverse publicity may negatively affect us, regardless of whether the allegations are valid, whether they are limited to a single pub or whether we are at fault. Furthermore, many of our pubs operate leisure machines, and any negative publicity in relation to gambling by minors, the use of leisure machines in pubs and other concerns with the gambling industry, even if not directly connected to us, may adversely impact our pubs. In addition, a health and safety accident or incident at a property owned or leased by us that may lead to serious injury or even loss of life, could significantly affect our reputation.

The negative impact of adverse publicity relating to one of our pubs may extend far beyond the pub involved to affect some or all of our other pubs, as such impact may affect the public's perception of the pub business in general and/or negatively affect our reputation in the pub industry, especially amongst potential publicans who are interested in partnering with us. In addition, restoring image and reputation of our business may be costly and time consuming. The occurrence of such incidents could have a negative impact on our business, operating results, financial condition and prospects.

Disease outbreaks, incidents of food or drink contamination, including a serious contamination or threat of contamination, could adversely affect our reputation and result in financial loss.

We are susceptible to risks relating to disease outbreaks (including the ongoing COVID-19 pandemic, as well as incidents of salmonella, E. coli, "swine flu," "H1N1" and other airborne diseases), which can affect consumer confidence and preferences, resulting in lower footfall or expenditure at our pubs.

We are also susceptible to food and drink contamination, including in relation to issues involving integrity and traceability of food supplies. Any such contamination could lead to increased costs for our managed pubs, and, in seeking to address the contamination, we may be required to procure supplies from alternative suppliers or source alternate products. A serious contamination or threat of contamination at one of our branded managed pubs, bars or venues could also negatively affect the reputation of one or more of our managed brands. Further, if there is an issue in our food supply chain, including the provision of incorrect allergen information, that leads to serious illness or loss of life of one of our customers this could lead to restrictions in supply, potential increases in the cost of goods and reduced sales.

We adopt and maintain rigorous health and safety policies. However, given the degree of access members of the public have to our premises, and particularly in light of the ongoing COVID-19 pandemic, our health and safety policies may not be able to prevent a serious health and safety incident from occurring on our premises, which could have an adverse effect on our reputation and, as a result, on our operating results, financial condition and prospects. The occurrence of a serious health and safety incident at one of our branded managed pubs, bars or venues could also negatively affect the reputation of one or more of our brands.

Furthermore, health and safety incidents, including in relation to the COVID-19 pandemic, or contamination issues may from time to time result in our becoming subject to various claims and legal actions. No assurance can be given that we will not experience actual losses in connection with these legal actions or that new disputes will not arise under which we could face additional liabilities and reputational risk. Further, if incidents involving the abuse of alcohol, use of illegal drugs and violence continue to occur or increase in frequency on our premises, it may directly interrupt our operations and could result in litigation or regulatory action or have an impact on our reputation. Any of the foregoing factors could have a material adverse effect on our business, operating results, financial condition and prospects.

We are dependent on key executives for our future success.

Our future success is substantially dependent on the continuing service and performance of key executives and our ability to continue to attract and retain highly skilled senior management. The current directors and members of our management team may not remain with us. Our failure to retain or recruit suitable replacements for any of our directors, the management team or significant numbers of other key employees could have an adverse effect on our business, operating results, financial condition and prospects.

We could be liable for environmental compliance costs at our properties.

We may be liable for a number of environmental compliance costs in relation to our managed pubs, such as costs relating to recycling (for example, recycling of our used cooking oil) and waste disposal. In addition, we may be liable for the costs of removal, investigation or remediation of hazardous or toxic substances, including asbestos, on or in a property owned or leased by us. The costs of any required removal, investigation or remediation of such substances may be substantial thus, if we were found to be liable for the costs arising from any of these or other obligations or if publicans were unable to meet their rental payments as a result of such obligations (including fines for non-compliance), our revenue could be adversely affected. The presence of such substances or the failure to remediate such substances properly, may also adversely affect our ability to sell or lease the property or to borrow using the property as security. Changes in law or regulation may impose further liabilities on us which may also form the basis of liability to third persons for personal injury or other damages.

Furthermore, any publicity surrounding environmental liabilities could harm our reputation. Any of the foregoing factors could have a material adverse effect on our business, operating results, financial condition and prospects. See "Stonegate Group's Business—Environmental Matters." Changes in law or regulation may impose further responsibilities on us, which could adversely affect our business, operating results, financial condition and prospects.

We may need to increase contributions to cover deficits with respect to our pension schemes.

Stonegate Group operates two defined benefit pension schemes: the Laurel Pub Pension scheme and the Yates Group Pension scheme (each a "Stonegate Group Pension Scheme" and together, the "Stonegate Group Pension Schemes"). These are both closed to new entrants. As of September 29, 2019, the present value of funded defined benefit obligations was £106 million, across both schemes, calculated on an IAS 19 basis. In addition, the deficit in respect of the Stonegate Group Pension Schemes as of April 12, 2020 was £8 million.

There are many risks arising from the operation of the Stonegate Group Pension Schemes. The pensions regulator in the United Kingdom (the "Pensions Regulator"), for instance, may impose a scheme funding target and employer contribution rate, if those matters cannot be agreed between the scheme trustees and the relevant employers. In addition, the trustees of either Stonegate Group Pension Scheme may wind up the relevant scheme, as permitted in certain circumstances. The Pensions Regulator also has statutory power to order a pension scheme to be wound up. Winding up the schemes would result in a statutory obligation on the various participating employers to fund the schemes by reference to a "buyout basis" (which represents the estimated cost of securing members' benefits by purchasing annuity policies from an insurance company). The Pensions Regulator may require funding or funding guarantees from our members (in the form of a contribution notice or financial support direction) for defined benefit pension schemes in various circumstances. In addition, the trustees of the Stonegate Group Pension Schemes may alter the investment profile of the relevant scheme. For example, the trustee could exchange equity investments for lower risk investments such as bonds, which would typically increase the employer funding obligations in relation to the schemes because of the lower rate of return expected from lower risk investments.

The foregoing risks are linked to the funding level of the Stonegate Group Pension Schemes, which may be adversely affected by a number of factors, including: (i) reducing bond yields (since lower yields mean a pension obligation is assessed as having a higher value); (ii) increasing life expectancy (which will make pensions payable for longer and, therefore, more expensive to provide); (iii) investment returns failing to meet expectations; (iv) actual and expected price inflation, subject to the limits set out in the Pension Schemes' governing documentation; (v) funding volatility as a result of any mismatch between the assets held and the assets by reference to which the scheme liabilities are calculated; and (vi) other events occurring which make past service benefits more expensive than anticipated in the actuarial assumptions by reference to which past pension contributions were assessed, including unanticipated changes to tax or other legislation.

Our insurance may be insufficient and certain types of loss may be uninsurable.

Although insurance policies held or maintained by us cover such risks as material damage, business interruption, loss of rent and third party liability, there is a risk that our properties could suffer damage so extensive that it is not fully covered by our insurance. Moreover, certain types of risk are not insured fully, such as business interruptions caused due to the COVID-19 pandemic, either because such insurance is not available or because we have determined that the premium costs are disproportionate to the risks in question, and certain risks may be the subject of exclusions. If an uninsured loss (or a loss above the level of our insurance coverage) occurs at one or more of our properties, we could lose all or a portion of the capital we had invested in, as well as any anticipated future revenue from, such properties. In addition, we could be liable to repair damage caused by uninsured risks, and could remain liable for any debt or other financial obligation related to those properties. As a result of the nature of our business, we are also exposed to the risk of other health and safety incidents, for example, accidents occurring on our premises. Any such occurrence could have an adverse effect on our business, operating results, financial condition and prospects.

Computer or information system breakdowns could impair our ability to conduct our business.

Information technology ("IT") systems are used extensively in our business, including for our ordering systems, stocking activities, logistics, financial reporting, management of systems monitoring performance, and following the COVID-19 pandemic, by our employees working remotely. Our operations therefore depend on the continued and uninterrupted functioning of our IT systems. The centralization of many aspects of our operations, such as purchasing, marketing, property, finance, human resources and IT, to a certain extent make such functions more vulnerable to a catastrophic failure at the site or sites at which the IT systems underlying such functions are physically located.

If any of our IT systems were to be disabled or were to malfunction or cease operating properly or as designed, including as a result of computer security breaches, computer viruses, problems with the internet or sabotage, we could suffer disruption to our business and supply chains, regulatory intervention, reputational damage or incur liability to retailers or customers or experience loss of data. Further, there is a risk that inadequate disaster recovery plans and information security processes are in place to mitigate against a system outage, or failure to ensure appropriate back-up facilities (covering key business systems and the recovery of critical data) and loss of sensitive data. This could have a significant effect on our ability to conduct our business which, in turn, could have an adverse effect on our business, operating results, financial condition and prospects.

In addition, our online presence, the quantity of customer and employee information held by us, and following the COVID-19 pandemic, remote working and increase in employee health data being processed by us, means that we are in possession of personal data and must therefore comply with strict data protection and privacy laws and regulations such as the General Data Protection Regulation (Regulation (EU) 2016/679) (the "GDPR").

Further consolidation in the pub industry in the United Kingdom may result in our being unable to compete with larger competitors.

The pub industry in the United Kingdom has undergone periods of consolidation through joint ventures, mergers and acquisitions. Further consolidation in the pub industry in the United Kingdom, could lead to additional downward pricing pressures on our offering. In connection with further consolidation, competitors could also reinvigorate and/or modernize older pubs, which could negatively affect our consumer attendance. In addition, any future consolidation in the brewing and distribution industry could force us to rely on a limited number of suppliers, and consequently, those suppliers may be able to exert pressures on us that could increase the prices we pay for our supplies. Therefore, if we cannot continue to be a major participant in the pub industry in the United Kingdom, we may not be able to secure favorable pricing from suppliers or attract, or retain suitable employees and managers to operate and manage our managed pubs or retain or attract suitable publicans for our leased and tenanted pubs, which could have an adverse effect on our business, operating results, financial condition and prospects.

We may not be able to protect our intellectual property adequately, which could harm the value of our brands and adversely affect our operating results, financial condition and prospects.

We depend in large part on our brands and believe that they are very important to our business, particularly in the context of our Slug and Lettuce format. We rely on our trademarks to protect our brands. The success of our business depends, in part, on our continued ability to use our existing trademarks in order to increase brand awareness. Although we have registered the brand names for our key pubs, trademarks and logos that distinguish our pubs for trademark protection in the United Kingdom, these actions may be inadequate to prevent imitation of our brands and concepts by others or to prevent others from claiming violations of their trademarks and proprietary rights by us. In addition, intellectual property registrations must be continually renewed and failure to do so could see protection for such intellectual property lapse. If our efforts to protect our intellectual property prove to be inadequate, the value of our brands could be harmed, which could adversely affect our business, operating results, financial condition and prospects.

A significant portion of our business activities is transacted in cash and our internal controls in relation to cash management may not be sufficient to address all the risks associated with the handling of cash and cash transactions.

Due to the nature of our business, a significant proportion of our revenue is collected in cash across our managed pubs, which exposes us to potential cash loss. Although we have an internal audit department which maintains a comprehensive cash handling policy and aims to ensure there is minimal cash leakage out of the business, our internal controls in relation to cash management may not be sufficient to address all the risks associated with the handling of cash and cash transactions. We may therefore be exposed to risks such as loss, theft, misappropriation and forgery of the cash used in the transactions in our managed pubs. In the event such risks materialize, our business, operating results, financial condition and prospects may be materially and adversely affected.

A failure to comply with data protection laws and regulation could adversely affect our reputation and result in adverse regulatory and financial consequences including fines and penalties.

Data protection laws and regulations have increased in recent years. The GDPR and the UK Data Protection Act 2018 significantly change the data protection landscape in the European Union and the United Kingdom. Such laws and regulations strengthen the rights of individuals (data subjects), impose stricter controls over the processing of personal data by both controllers and processors of personal data and impose stricter sanctions with substantial administrative fines and potential claims for damages from data subjects for breach of their rights. The GDPR also offers data subjects the option to allow privacy organizations to litigate on their behalf, including collecting potential damages, which may result in a substantial increase in claims being brought. Should a serious data breach occur, the GDPR provides for increased obligations to notify regulators and data subjects whose personal data has been compromised and may result in the imposition of significant sanctions and penalties, which will require heightened escalation and notification processes with associated response plans. Complying with all relevant data protection laws and regulation is relatively complex. We, or the entities or businesses acquired by us, may have entered in the past or may enter in the future into supplier contracts, employment agreements or other types of material contracts that may not be compliant with applicable data protection laws and regulations.

If a significant or widely publicized unlawful disclosure of supplier, employee or customer data were to occur, whether as a result of a cyber-attack, the failure of our IT security systems, employee negligence, the actions of our suppliers or otherwise, we may be subject to legal claims by individuals, fines or other enforcement action which could result in adverse regulatory and financial consequences and could harm our reputation. Such risks of unlawful disclosure of customer data is particularly heightened in light of the COVID-19 pandemic, as UK government's guidelines for pubs require us to keep a temporary record of customers for 21 days and assist National Health Service's Test and Trace service with requests for data if needed. A failure to comply with applicable data protection laws and regulation may subject us to fines and penalties which could have a material adverse effect on our business, operating results, financial condition and prospects.

Adverse litigation judgments or settlements resulting from legal proceedings in which we may be involved in the normal course of our business could reduce our cash flow, harm our financial position and limit our ability to operate our business.

We have been and, from time to time, may continue to become a party to claims and lawsuits incidental to the ordinary course of business. For example, in February 2018, a customer who was queuing to enter one of our venues died due to an incident involving a crowd surge and perimeter barrier collapse outside our venue. The matter remains under investigation by the police and local authority and we continue to cooperate with the investigation. If we were to be prosecuted for health and safety offences in relation to this matter and to be found guilty, we may become subject to financial penalties and/or reputational harm. The outcome of this and other legal proceedings cannot be predicted. If any of the proceedings against us were to be determined adversely to us, and consequently a settlement involving a payment of a material sum of money were to occur, or criminal fines or penalties were to be imposed, there could be a material adverse effect on our financial condition and results of operations, as well as a negative effect on our reputation. Additionally, we could become the subject of future claims by third parties, including current or former customers who visit our pubs, employees, investors or regulators and litigants of previously acquired businesses. We may also become subject to enforcement actions or claims for personal injury under environmental regulations, such as the Control of Asbestos Regulations 2012 and the Regulatory Reform (Fire Safety) Order 2005, which could result in significant fines and penalties. See "Stonegate Group's Business—Environmental Matters." We may also be at risk of employment-related claims with regards to both our managed pub employees and pub support staff. Any significant adverse litigation judgments or settlements would reduce our cash flow and harm our financial position and could limit our ability to operate our business and adversely affect our reputation.

The adjustments to our Pro Forma Adjusted EBITDA (excluding the impact of IFRS 16) to derive our resulting Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS 16) should be treated with caution when making an investment decision.

This Offering Memorandum presents certain adjustments to our Pro Forma Adjusted EBITDA (excluding the impact of IFRS 16) to derive the resulting Pro Forma Adjusted EBITDA Including Synergies excluding the impact of IFRS 16). These adjustments are based on certain assumptions. For example, we have made an adjustment of £80 million representing the aggregate cost savings that we expect to realize in connection with the Transaction. Our estimated costs savings reflect estimated procurement savings, savings resulting from optimizing site operations and savings from extracting possible head office synergies that we believe we will be able to achieve through integrating operating models and applying best practices across Stonegate Group and Ei Group, and by gaining increased scale through combined operations.

Any cost savings that we believe we can realize in relation to the Transaction are based on our past experience and certain assumptions that we believe are reasonable. This information is inherently subject to risks and uncertainties. It may not give an accurate or complete picture of the financial condition or results of operations for the period presented or any future period, and may not be comparable to our historical consolidated financial statements or the other financial information included in this Offering Memorandum. Accordingly, it should be treated with caution when making an investment decision. If we are unable to realize our estimated cost savings, or achieve estimated EBITDA-based increases based on our other assumptions, or if the costs in achieving these projected EBITDA-based increases are significantly higher than our current estimates, that may cause our actual financial performance to differ significantly from that implied by the Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS 16) presented in this Offering Memorandum, which could have a material adverse effect on our business, results of operations, financial condition or prospects.

The Unaudited Pro Forma Condensed Combined Financial Information presented in this Offering Memorandum may not reflect our actual results that would have been achieved had the Transaction been consummated on the date or for the periods indicated and do not purport to indicate results of operations as of any future date or for any future period.

We have presented in this Offering Memorandum certain Unaudited Pro Forma Condensed Combined Financial Information, consisting of unaudited pro forma condensed combined income statement information of Stonegate Group for the 28 weeks ended April 12, 2020 and the 52 weeks ended September 29, 2019. The Unaudited Pro Forma Condensed Combined Financial Information is intended to give pro forma effect to the Transaction as though it had occurred on September 30, 2019, in the case of the unaudited pro forma condensed combined income statement information for the 28 weeks ended April 12, 2020, and as though it had occurred on October 1, 2018, in the case of the unaudited pro forma condensed combined income statement information for the 52 weeks ended September 29, 2019.

The Unaudited Pro Forma Condensed Combined Financial Information has been prepared for illustrative purposes only and does not represent our actual results of operation or financial position. This information has been derived based upon available information and assumptions that we believe are reasonable in the circumstances. Such assumptions may prove to be inaccurate over time. In addition, the pro forma adjustments we have made to derive this information reflect only those adjustments which are factually determinable and do not include the impact of contingencies which will not be known until resolution of any such contingency. Accordingly, the Unaudited Pro Forma Condensed Combined Information should not be considered indicative of actual results that would have been achieved had the Transaction been consummated on the date or for the periods indicated and do not purport to indicate results of operations as of any future date or for any future period. Because of its nature, the pro forma financial information addresses a hypothetical situation and, therefore, does not represent our actual financial position or results of operation. In addition, the Unaudited Pro Forma Condensed Combined Financial Information has not been prepared in accordance with the requirements of Regulation S-X of the Securities Act, the Prospectus Regulation or any generally accepted accounting standards.

We cannot assure you that the projections or assumptions used, estimates made or procedures followed in the Valuation Reports in respect of Stonegate Group's and Ei Group's property portfolio are correct, accurate or complete.

This Offering Memorandum refers to the Valuation Reports with respect to Stonegate Group's and Ei Group's portfolio of freehold and leasehold properties prepared in accordance with the RICS Standards. DCL has prepared the Stonegate Group Valuation Report in respect of Stonegate Group's portfolio of

761 freehold and leasehold properties as of September 29, 2019. As of September 29, 2019, Stonegate Group's property portfolio consisted of 763 sites, and it subsequently disposed of two sites. The Stonegate Group Valuation Report excluded these two sites and valued 761 sites as of September 29, 2019. The Offering Memorandum also refers to the Ei Group Valuation Reports issued by Avison Young in respect of Ei Group's properties that secure the Ei Corporate Bonds and Colliers in respect of Unique Group's properties, in each case as of September 30, 2019.

The Valuation Reports are based on desktop valuations of Stonegate Group's and Ei Group's portfolios of freehold and leasehold properties, with limited on-site inspection. As a result of the limited due diligence and property inspections, each of DCL, Avison Young and Colliers made a number of assumptions in order to value the properties. For instance, in respect of the Stonegate Group Valuation Report, DCL has, among other things, (i) not measured the properties but has relied upon the floor areas provided by us; (ii) only undertaken inspections of approximately 10% of the total portfolio of properties covered in the Stonegate Group Valuation Report; (iii) not carried out any investigations into the past or present uses of the properties, nor of any neighboring land, in order to establish whether there is any potential for contamination and have therefore assumed that none exists and (iv) not undertaken structural surveys and not inspected any part of the properties that are covered, unexposed or inaccessible, or tested any of the electrical, heating, drainage or other services, and no assurance is given that the properties are free from defect. Similarly, in respect of the Ei Group Valuation Reports, Avison Young and/or Colliers have, (i) assumed that the buildings are capable of being insured by reputable insurers at reasonable market rates;(ii) not made any allowance for legal fees or any other costs or expenses which would be incurred on the sale of the property, except where appropriate, and in accordance with market practice for the asset type, they have made deductions to reflect purchasers' acquisition costs; (iii) not undertaken any form of technical, building or deleterious material survey and have not reviewed, or given warranties as to, the condition of the structure, foundations, soil and services; and (iv) not provided a formal environmental assessment and have not carried out any soil, geological or other tests or surveys in order to ascertain the site conditions or other environmental conditions of the property.

If valuations with the benefit of full inspections took place, then the assumptions adopted may have been different and, as a result, the actual valuations could be materially different from those reported in the Valuation Reports. For this reason, you should not, and are not entitled to, rely upon the valuations taken from the Valuation Reports and reported herein for the purposes of making, or refraining from making, any investment decision.

Other appraisers may reach different valuations of Stonegate Group's and Ei Group's property portfolio. Moreover, the value determined in the Valuation Reports could be significantly higher than the amount that would be obtained from the actual sale of the property portfolios, especially in a distressed or liquidation scenario. Accordingly, the Valuation Reports should not be considered a representation of the actual present or future value of Stonegate Group's and Ei Group's property portfolio. The realizable value of the property portfolios at any given time will depend on various factors, including:

- market, economic and industry conditions, including demand and capacity for our services;
- whether any additional property sales are anticipated;
- the effect any sale may have on the remaining portfolio;
- the availability of buyers;
- the availability of financing;
- the time period in which the properties are to be sold;
- the supply of similar properties;
- the condition of the properties;
- regulatory risks, including obtaining any necessary consents required to transfer our pub operations; and
- other operational cost risks.

In addition, we anticipate that the appraised value of Stonegate Group's and Ei Group's property portfolio will change over time, and it may change materially. In particular, the COVID-19 pandemic may have resulted in a decline in our freehold and leasehold property values. We have recognized £24 million of impairment charge for property, plant and equipment during the 28 weeks ended April 12, 2020. Property, plant and equipment are reviewed for impairment if there are any indicators to suggest that the carrying amount may not be recoverable and recoverable amounts are determined based on value-in-use calculations and estimated sale proceeds. However, the Stonegate Group Property Asset Value and Ei Group Property Asset Value have not been adjusted for any potential decline in property values due to the COVID-19 pandemic. See "Presentation of Financial and Other Information—Valuation." After the issuance of the New Notes, neither third parties nor we will provide the holders of New Notes with revised valuations and we expressly disclaim any duty to update such valuation under any circumstance.

The Transaction may entitle Ei Group's joint venture partners or other third parties to terminate or modify their agreements with Ei Group as a result of change of control provisions.

The Transaction may constitute a change of control under certain agreements entered into by Ei Group, such as joint venture agreements with expert partners to operate pubs in the Managed Investments division. Following the Transaction, such agreements may entitle the joint venture partner or other third parties to terminate their agreements with us, or request or require modifications to the terms and conditions governing the agreements. In addition, some of the third parties may use their termination or modification rights to renegotiate the terms of the agreements to our disadvantage. We cannot exclude the possibility that some of Ei Group's joint venture partners or other third parties may exercise their termination, modification or other rights, which could have a material adverse effect on our business, operating results, financial condition and prospects.

Our opportunity to conduct due diligence with respect to Ei Group was limited, and our due diligence may not have revealed all facts that may be relevant in connection with the Transaction.

Before making acquisitions, we conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances applicable to each acquisition. The objective of the due diligence process is to identify attractive opportunities based on the facts and circumstances of potential targets or assets, to identify possible risks associated with such acquisitions and to prepare a framework that may be used from the date of the relevant acquisition to achieve the objectives and anticipated benefits of the acquisition. When conducting due diligence, we typically evaluate a number of important business, financial, tax, accounting, environmental and legal issues in determining whether or not to proceed with an acquisition. We also involve external consultants, legal advisors, accountants and investment banks in the due diligence process to varying degrees depending on the nature of the acquisition. When conducting due diligence and making an assessment regarding an acquisition, we rely on resources available to us, including information provided by the target and, in certain instances, information made available pursuant to third-party investigations.

As Ei was a public listed company at the time we acquired it, the due diligence conducted in connection with the Transaction was largely restricted to publicly available information. We cannot be certain that our due diligence investigations have revealed or highlighted all relevant facts (including fraud, bribery and other illegal activities and contingent liabilities) that may be relevant or necessary in evaluating the merits of the Transaction. There may be claims or liabilities that we failed or were unable to discover in the course of performing due diligence investigations with respect to Ei Group. We have only recently completed the acquisition of Ei Group and may learn of additional information about Ei Group that may adversely affect our operating results, financial condition and prospects, such as unknown or contingent liabilities and issues relating to compliance with applicable laws. Any such liabilities, individually or in the aggregate, could have a material adverse effect on our operating results, financial condition and prospects.

Additionally, the Transaction has required, and will likely continue to require, substantial time commitment by, and the attention of, our management, which may have an adverse effect on our management's ability to operate our business.

We have not included any US GAAP financial information in this Offering Memorandum.

We prepare our financial statements on the basis of IFRS, which differs in certain significant respects from US GAAP. We have not presented a reconciliation of our historical consolidated financial statements to US GAAP in this Offering Memorandum. As there are significant differences between IFRS and US GAAP, there may be substantial differences in our results of operations, cash flows and financial condition if we were to prepare our historical consolidated financial statements in accordance with US GAAP.

Terrorist attacks, war, and threats of attacks and war may materially and adversely affect consumer spending, and in turn, our financial condition, financial returns and results of operation.

Terrorist attacks in the United Kingdom and abroad, as well as war and threats of war or actual conflicts involving the United Kingdom or other countries, may dramatically and adversely impact the economy of the United Kingdom and cause consumer confidence and spending to decrease. Any of these occurrences could result in a material adverse effect on our operating results, financial condition and prospects.

Risks Related to Our Financial Profile, the New Notes and the Note Guarantees

Our substantial leverage and debt service obligations could adversely affect our business and prevent us from fulfilling our obligations with respect to the New Notes and the Note Guarantees.

We are, and following the issuance of the New Notes, will continue to be, highly leveraged. As of April 12, 2020, after giving effect to the issuance of the Notes and the application of the proceeds therefrom, we would have had total third-party debt of £3,178 million (excluding a lease liability of £778 million calculated in accordance with IFRS 16). As of April 12, 2020, our Revolving Facilities were drawn in an amount of £200.0 million. Effective July 13, 2020, the committed financing under the Revolving Facilities Agreement was increased to £250 million (the additional £50 million of committed capital available for a 23-month period). See "Capitalization."

The degree to which we will remain leveraged following the issuance of the New Notes could have important consequences to holders of the New Notes offered hereby, including, but not limited to:

- making it difficult for us to satisfy our obligations with respect to the New Notes;
- increasing our vulnerability to, and reducing our flexibility to respond to, general adverse economic and industry conditions, including an economic downturn due to the impact of the COVID-19 pandemic;
- requiring the dedication of a substantial portion of our cash flow from operations to the payment of interest and amortization costs on indebtedness, thereby reducing the availability of such cash flow to fund the payment of principal of indebtedness, working capital, capital expenditures, acquisitions, joint ventures or other general corporate purposes;
- limiting our flexibility in planning for or reacting to changes in our business and the competitive environment and the industry in which we operate;
- placing us at a competitive disadvantage as compared to our competitors, to the extent that they are not as highly leveraged; and
- limiting our ability to borrow additional funds and increasing the cost of any such borrowing.

Any of these or other consequences or events could have a material adverse effect on our ability to satisfy our debt obligations, including the New Notes.

Despite our high level of indebtedness, we may be able to incur significant additional amounts of debt, which could further exacerbate the risks associated with our substantial indebtedness.

We may be able to incur substantial additional indebtedness in the future. Although the Indenture, the Revolving Facilities Agreement, the Senior Term Facilities Agreement and the Second Lien Facility Agreement contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and under certain circumstances, the amount of indebtedness that could be incurred in compliance with those restrictions could be substantial. Additionally, the Unique Issuer may, subject to meeting certain requirements, issue additional notes, which could increase the level of our indebtedness. The Unique Issuer may also issue one or more classes of notes to replace one or more existing classes of Unique Securitized Notes. Such a refinancing would result in the relevant Unique Securitized Notes being redeemed at their principal amount plus the applicable make whole premium, which could require significant outlay of cash thus reducing our cash flow. The Indenture, the Revolving Facilities Agreement, the Senior Term Facilities Agreement and the Second Lien Facility Agreement do not prevent us from incurring obligations that would not constitute indebtedness under these agreements.

The debt under our Revolving Facilities Agreement, the Senior Term Facilities Agreement and the Second Lien Facility Agreement bear, and the Floating Rate Notes will bear, interest at a floating rate that could rise significantly, increasing our interest cost and debt and reducing our cash flow.

Borrowings under the Revolving Facilities, the Senior Term Facilities Agreement and the Second Lien Facility bear, and the Floating Rate Notes will bear, interest at floating rates of interest per annum equal to LIBOR or EURIBOR, as applicable, plus an agreed margin. LIBOR and EURIBOR could rise significantly in the future. Although we may enter into and maintain certain hedging arrangements designed to fix a portion of these rates, there can be no assurances that hedging will continue to be available on commercially reasonable terms. Hedging itself carries certain risks, including that we may need to pay a significant amount (including costs) to terminate any hedging arrangements. To the extent interest rates were to rise significantly, our interest expense associated with the Floating Rate Notes and debt under our Revolving Facilities Agreement, the Senior Term Facilities Agreement and the Second Lien Facility Agreement would correspondingly increase, thus reducing cash flow.

Following allegations of manipulation of LIBOR, a measure of interbank lending rates, regulators and law enforcement agencies from a number of governments and the European Union are conducting investigations into whether the banks that contribute data in connection with the calculation of daily Euro Interbank Offered Rate ("EURIBOR") or the LIBOR may have been manipulating or attempting to manipulate EURIBOR and LIBOR. As a result, EURIBOR, LIBOR and other interest rates are indices which are deemed to be "benchmarks" are the subject of recent and ongoing national, international and other regulatory guidance and proposals for reform, including the implementation of the IOSCO Principles for Financial Market Benchmarks (July 2013) and Regulation (EU) 2016/1011 (the "Benchmarks Regulation") which was published in the Official Journal of the EU on June 29, 2016, and applies since January 1, 2018. Some of these reforms are already effective while others are still to be implemented. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark, within the EU. It will, among other things (i) require benchmark administrators to be authorized or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognized or endorsed) and (ii) prevent certain uses by EU supervised entities of benchmarks of administrators that are not authorized or registered (or, if non-EU based, not deemed equivalent or recognized or endorsed).

These reforms, including the Benchmarks Regulation, may cause such benchmarks to perform differently than in the past, or to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Floating Rate Notes or our debt linked to such a "benchmark." The Benchmarks Regulation could have a material impact on any Floating Rate Notes and our other debt linked to such a "benchmark" in particular, if the methodology or other terms of the EURIBOR benchmark are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the EURIBOR benchmark. In addition, any of the international, national or other proposals for reform, or the general increased regulatory scrutiny of "benchmarks," could increase the costs and risks of administering or otherwise participating in the setting of a "benchmark," including EURIBOR and LIBOR, and complying with any such regulations or requirements.

Such factors may have the following effects on certain "benchmarks" such as EURIBOR: (i) discourage market participants from continuing to administer or contribute to such "benchmark"; (ii) trigger changes in the rules or methodologies used in the "benchmarks" or (iii) lead to the disappearance of the "benchmark." On July 27, 2017, and in subsequent speeches (including the speech by its chief executive on July 12, 2018) the UK Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the "FCA Announcements"). The FCA Announcements indicate that the continuation of LIBOR on the current basis, or at all, cannot and will not be guaranteed after 2021. The potential elimination of the LIBOR benchmark or any other benchmark, changes in the manner of administration of any benchmark, or actions by regulators or law enforcement agencies could result in changes to the manner in which LIBOR is determined, which could require an adjustment to the terms and conditions, or result in other consequences, in respect of any debt linked to such benchmark. Any of the above changes or any other consequential changes as a result of international, national or other proposals for reform or other initiatives or investigations, as well as manipulative practices or the cessation thereof, may result in a sudden or prolonged increase in reported LIBOR, which could have a material adverse effect on the value of and return on any floating rate debt linked to LIBOR and on our ability to service debt that bears interest at floating rates of interest.

Any elimination of the EURIBOR benchmark, or changes in the manner of administration of EURIBOR, could require an adjustment to the terms and conditions of the Floating Rate Notes. Any such consequence could have a material adverse effect on the value of and return on any such Floating Rate Notes.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation reforms, or any other international reforms, any other risks imposed by the cessation or reform of certain reference rates, and investigations and licensing issues in making any investment decision with respect to the Floating Rate Notes.

Investors should be aware that, if EURIBOR were discontinued or otherwise unavailable, the rate of interest on the Floating Rate Notes will be determined for the relevant period by the fallback provisions applicable to the Floating Rate Notes. This may in certain circumstances (i) be reliant upon the provision by reference banks of offered quotations for the EURIBOR benchmark which, depending on market circumstances, may not be available at the relevant time, (ii) result in the effective application of a fixed rate based on the rate which applied in the previous period when EURIBOR was available or (iii) permit the Issuer to replace EURIBOR with any alternative rate which has replaced EURIBOR in customary market usage for purposes of determining floating rates of interest in respect of euro-denominated securities, as identified by the Issuer in consultation with an independent financial advisor. See "Description of the Notes—Interest—Interest on the Floating Rate Notes." Any of the foregoing could have an adverse effect on the value or liquidity of, and return on, the Floating Rate Notes.

We are subject to restrictive debt covenants that may limit our ability to finance our future operations and capital needs and to pursue business opportunities and activities.

The Indenture, the Revolving Facilities Agreement, the Senior Term Facilities Agreement and the Second Lien Facility Agreement restrict, among other things, our ability to:

- incur or guarantee additional indebtedness;
- pay dividends or make other distributions or purchase or redeem our stock;
- make investments or other restricted payments;
- enter into agreements that restrict our restricted subsidiaries' ability to pay dividends;
- transfer or sell assets;
- engage in transactions with affiliates;
- create liens on assets to secure indebtedness;
- impair security interests; and
- merge or consolidate with or into another company.

The covenants to which we are subject could limit our ability to finance our future operations and capital needs and our ability to pursue business opportunities and activities that may be in our interest. All of these limitations are subject to significant exceptions and qualifications.

For the restrictions that are included in the Indenture, see "Description of the Notes—Certain Covenants." For the restrictions that are included in the Revolving Facilities Agreement, the Senior Term Facilities Agreement, the Second Lien Facility Agreement, the agreements governing the Unique Securitized Notes and the Unique Intercompany Loan Agreement, see "Description of Other Indebtedness." A breach of covenants, ratios, tests or restrictions contained in these agreements could result in an event of default under these agreements. In particular, upon the occurrence of any event of default under the Revolving Facilities Agreement, the Senior Term Facilities Agreement, the Second Lien Facility Agreement or in respect of the Unique Securitized Notes and the Unique Intercompany Loan Agreement, subject to any applicable cure periods and other limitations on acceleration or enforcement, the relevant creditors could cancel the availability of the relevant facilities and elect to declare all amounts outstanding under the relevant facilities, together with accrued interest, immediately due and payable. In addition, any default under the Revolving Facilities Agreement, the Senior Term Facilities Agreement and the Second Lien Facility Agreement, could lead to an event of default and acceleration under other debt instruments that contain cross-default or cross-acceleration provisions, including the Indenture. If our creditors accelerate payment of amounts under the relevant facilities, we cannot assure you that our assets and the assets of our subsidiaries would be sufficient to repay in full those amounts, to satisfy all other liabilities of our subsidiaries which would be due and payable and to make payments to enable us to repay the New Notes, in full or in part. In addition, if we are unable to repay those amounts, our creditors could proceed against any collateral granted to them to secure repayment of those amounts.

We are also subject to the affirmative covenants contained in the Revolving Facilities Agreement. In particular, the Revolving Facilities Agreement requires us to comply with a financial covenant to maintain our consolidated leverage ratio for each period of twelve months ending on any quarter date if utilizations thereunder exceed a certain threshold. Due to the impact of the COVID-19 pandemic, the Revolving

Facilities Agreement has been amended to allow the Parent to test the financial covenant on the basis of certain deemed consolidated EBITDA numbers for the third and/or the fourth financial quarter in the financial year 2020. However, we have also agreed to certain additional covenants and restrictions, including a minimum liquidity test and additional restrictions on incurring indebtedness and making restricted payments, applicable for the duration when the financial covenant is tested using the deemed consolidated EBITDA numbers. See "Description of Other Indebtedness—Revolving Facilities Agreement." Our ability to meet these covenants and restrictions can be affected by events beyond our control, and we cannot assure you that we will meet them.

We require a significant amount of cash to service our debt and sustain our operations. Our ability to generate sufficient cash depends on many factors beyond our control.

Our ability to make payments on and to refinance our debt, and to fund working capital and capital expenditures, will depend on our future operating performance and ability to generate sufficient cash. This depends, to some extent, on the success of our business strategy and on general economic, financial, competitive, market, legislative, regulatory and other factors, as well as the other factors discussed in these "Risk Factors," many of which are beyond our control. This also depends on our cash flow cycle. If our interest payment dates coincide with periods of significant cash outflow, we may have insufficient cash to pay our obligations as they come due. We also experience seasonal fluctuations in our cash flow. Attendance levels at our pubs are affected by the weather and by the timing of major sporting events. Persistent rain, snow or other inclement weather, especially during the summer months or over our peak trading periods such as the Christmas period, Easter, bank holidays in the United Kingdom and end-of-the-month salary weekends, can have a negative effect on our cash flow. The absence of major sporting events, or the poor performance of a British team, could have a negative impact on our cash position, which could impact our ability to make payments on and to refinance our debt, and to fund working capital and capital expenditures.

We cannot assure you that our business will generate sufficient cash flows from operations, that revenue growth, currently anticipated cost savings and operating improvements will be realized or that future debt and equity financing will be available to us in an amount sufficient to enable us to pay our debts when due, including the New Notes, or to fund our other liquidity needs. In particular, the continuing economic disruption caused by the COVID-19 pandemic, and the resulting restrictions and preventive measures, have adversely affected our ability to generate sufficient cash flows from operations. See "—Risks Related to our Business—The spread of the COVID-19 pandemic has caused severe disruptions in the United Kingdom and the global economy and could potentially create widespread business continuity issues of unknown magnitude and duration, which may impact our liquidity and access to capital" and "Stonegate Group Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

In addition, we are subject to certain limitations under the agreements governing the Unique Securitized Notes and the Unique Intercompany Loan Agreement, including limitations on the ability of Unique Group to make certain upstream payments to us. If our future cash flows from operations and other capital resources are insufficient to pay our obligations as they mature or to fund our liquidity needs, we may be forced to:

- reduce or delay our business activities and capital expenditures;
- sell assets;
- obtain additional debt or equity capital; or
- restructure or refinance all or a portion of our debt, including the New Notes, on or before maturity.

We cannot assure you that we would be able to accomplish any of these alternatives on a timely basis or on satisfactory terms, if at all. Any failure to make payments on the New Notes on a timely basis would likely result in a reduction of our credit rating, which could also harm our ability to incur additional indebtedness. In addition, the terms of our debt, including the Indenture and the terms governing the Revolving Facilities, the Senior Term Facilities Agreement, the Second Lien Facilities, the Unique Securitized Notes, the Unique Intercompany Loan Agreement, and any future debt, may limit our ability to pursue any of these alternatives. Any refinancing of our debt could be at higher interest rates and could require us to comply with more onerous covenants, which could further restrict our business, financial condition and results of operations. There can be no assurance that any assets which we could be required to dispose of could be sold or that, if sold, the timing of such sale and the amount of proceeds realized from such sale would be acceptable.

Creditors under the Revolving Facilities Agreement, any Hedging Agreements and any Operating Facility (as defined in the Intercreditor Agreement) will be entitled to be repaid with the proceeds of the Collateral sold in any enforcement sale in priority to the Notes.

The obligations under the Existing Fixed Rate Notes and the Note Guarantees related to them are secured, and the obligations under the New Notes and the Note Guarantees related to them will be secured, on a first-ranking basis with security interests over the Collateral, which also secures our obligations under the Revolving Facilities Agreement, the Senior Term Facilities Agreement and the Second Lien Facility Agreement. Further, the Indenture, the Revolving Facilities Agreement, the Senior Term Facilities Agreement and the Second Lien Facility Agreement permit the Collateral to be pledged to secure additional indebtedness in accordance with the terms of these agreements and the Intercreditor Agreement.

Pursuant to the terms of the Intercreditor Agreement, any liabilities in respect of obligations under the Revolving Facilities Agreement, any Hedging Agreements and any Operating Facility (as defined in the Intercreditor Agreement) that are secured by assets that also secure obligations under the Notes and the Note Guarantees, will receive priority with respect to any proceeds received upon any enforcement action over any such assets. See "Description of Other Indebtedness—Intercreditor Agreement."

As a result, in the event of any realization or enforcement of the Collateral, you may not be able to recover on the Collateral if the then-outstanding claims under the Revolving Facilities Agreement, any Hedging Agreements or any Operating Facility are greater than the proceeds realized.

The Notes are secured only to the extent of the value of the Collateral that has been granted or will be granted as security for the Notes and the Note Guarantees, and such security may not be sufficient to satisfy the obligations under the Notes and the Note Guarantees.

If there is an event of default on the Notes, the holders of the Notes will be secured only by the Collateral. See "Description of the Notes—Security—The Collateral." There is no guarantee that the value of the Collateral will be sufficient to enable the Issuer to satisfy its obligations under the Notes. There is no requirement to provide funds to enhance the value of the Collateral if it is insufficient. The proceeds of any sale of the Collateral following an event of default with respect to the Notes may not be sufficient to satisfy, and may be substantially less than, amounts due on the Notes.

The amount of proceeds realized upon the enforcement of the security interests over the Collateral or in the event of liquidation will depend upon many factors, including, among other things, general market and economic conditions, the condition of the market for the Collateral, the ability to sell Collateral in an orderly sale, the fair market value of the Collateral, the timing and manner of the sale, whether or not our business is sold as a going concern, the jurisdiction in which the enforcement action or sale is completed, the ability to readily liquidate the Collateral, the availability of buyers and the condition of the Collateral and exchange rates. Further, there may not be any buyer willing and able to purchase our business as a going concern, or willing to buy a significant portion of its assets in the event of an enforcement action. The book value of the Collateral should not be relied on as a measure of realizable value for such assets. Portions of the Collateral may be illiquid and may have no readily ascertainable market value.

In addition, not all of the assets of the Issuer, Stonegate Group and Ei Group will be secured. In particular, no security will be provided by any member of the Unique Group or with regard to any assets of the Unique Group. In addition, the security granted by Midco over its shares in Parent, will be non-recourse to Midco other than in relation to the charged shares.

By its nature, some or all of the Collateral may not have a readily ascertainable market value or may not be saleable or, if saleable, there may be substantial delays in its disposal. To the extent that liens, security interests and other rights granted to other parties encumber assets owned by the Issuer or the Guarantors, those parties have or may exercise rights and remedies with respect to the property subject to their liens, security interests or other rights that could adversely affect the value of that Collateral and the ability of the Security Agent, the Trustee or holders of the Notes to realize or enforce that Collateral. If the proceeds of any sale of Collateral are not sufficient to repay all amounts due on the Notes and the Note Guarantees, investors (to the extent not repaid from the proceeds of the sale of the Collateral) would have only an unsecured claim against the Issuer's and the Guarantors' remaining assets. Each of these factors or any challenge to the validity of the Collateral or the intercreditor arrangement governing our creditors' rights could reduce the proceeds realized upon enforcement of the Collateral. In addition, there can be no assurance that the Collateral could be sold in a timely manner, or at all. Proceeds from enforcement sales of capital stock and assets that are part of the Collateral must first be applied in satisfaction of obligations under the Revolving Facilities Agreement, any Hedging Agreements and any Operating Facility (as defined in the Intercreditor Agreement) and thereafter to repay on a pari passu basis the obligations of the Issuer and the Guarantor under the Indenture, the Notes and the Senior Term Facilities Agreement and any other indebtedness of the Issuer and the Guarantors permitted to be incurred and secured by the Collateral pursuant to the Indenture and the Intercreditor Agreement. In addition, the Indenture allows incurrence of certain additional permitted debt in the future that is secured by the Collateral on a priority or pari passu basis. The incurrence of any additional debt secured by the Collateral would reduce amounts payable to you from the proceeds of any sale of the Collateral.

To the extent that other first priority security interests, pre-existing liens, liens permitted under the Indenture, the Revolving Facilities Agreement, the Senior Term Facilities Agreement and the Second Lien Facility Agreement and other rights encumber the Collateral securing the Notes, the parties may have or may exercise rights and remedies with respect to the Collateral that could adversely affect the value of the Collateral and the ability of the Security Agent to realize or foreclose on the Collateral.

The Issuer and the Guarantors have control over the Collateral securing the Notes, and the sale of particular assets could reduce the pool of assets securing the Notes.

The Security Documents allow the Issuer and the Guarantors to remain in possession of, retain exclusive control over, freely operate, and collect, invest and dispose of any income from the Collateral securing the Notes. Subject to the Security Documents, so long as no default or event of default under the Indenture or a continuing acceleration event under the Revolving Facilities Agreement, the Senior Term Facilities Agreement and the Second Lien Facility Agreement would result therefrom, the Issuer and the Guarantors may, among other things, without any release or consent by the Security Agent, conduct ordinary course activities with respect to the Collateral, such as selling, factoring, abandoning or otherwise disposing of Collateral and making ordinary course cash payments, including repayments of indebtedness.

It may be difficult to realize the value of the Collateral securing the Notes.

The Collateral securing the Notes is subject to any and all exceptions, defects, encumbrances, liens and other imperfections permitted under the Indenture or the Intercreditor Agreement and accepted by other creditors that have the benefit of first-priority security interests in the Collateral securing the Notes from time to time, whether on or after the date the Existing Fixed Rate Notes were, and the New Notes will be, issued. The existence of any such exceptions, defects, encumbrances, liens and other imperfections could adversely affect the value of the Collateral securing the Notes, as well as the ability of the Security Agent to realize or foreclose on such Collateral. Furthermore, the first-priority ranking of security interests can be affected by a variety of factors, including, among others, the timely satisfaction of perfection requirements, statutory liens or recharacterization under the laws of certain jurisdictions. In addition, the laws, regulations or other governmental measures introduced in response to the COVID-19 pandemic may have the effect of imposing a moratorium on or otherwise delaying or limiting the ability to enforce or pursue certain remedies in respect of the Collateral.

The security interests of the Security Agent are subject to practical problems generally associated with the realization of security interests over real or personal property such as the Collateral. For example, the Security Agent may need to obtain the consent of a third party to enforce a security interest. We cannot assure you that the Security Agent will be able to obtain any such consents. We also cannot assure you that the consents of any third parties will be given when required to facilitate a foreclosure on such assets. Accordingly, the Security Agent may not have the ability to foreclose upon those assets, and the value of the Collateral may significantly decrease.

The security interests in the Collateral are granted to the Security Agent rather than directly to the holders of the Notes. The ability of the Security Agent to enforce certain of the Collateral may be restricted by local law.

The security interests in the Collateral that secure the obligations of the Issuer under the Notes and the obligations of the Guarantors under the Note Guarantees are not granted directly to the holders of the Notes but are granted only in favor of the Security Agent. The Indenture and the Intercreditor Agreement provide that only the Security Agent has the right to enforce the Security Documents. As a consequence, holders of the Existing Fixed Rate Notes do not, and the holders of the New Notes will not, have direct security interests and not be entitled to take enforcement action in respect of the Collateral securing the Notes, except through the Trustee, who will (subject to the provisions of the Indenture and the Intercreditor Agreement) provide instructions to the Security Agent in respect of the Collateral.

The Security Agent may not be able to appoint its choice of administrator in the event of insolvency nor have the right to appoint an administrative receiver.

There is a risk that the floating charges granted by the Issuer and the Guarantors do not constitute qualifying floating charges (as defined in paragraph 14 of Schedule B1 of the UK Insolvency Act 1986, as amended ("IA86") and, as a result, it would be unlikely that the Security Agent would be able to appoint its choice of administrator and the Security Agent would not have the right to appoint an administrative receiver. For further details on appointment of administrators or administrative receivers, see "Limitations on Validity and Enforceability of the Note Guarantees and Security Interest—England and Wales—Administration and Floating Charges."

The interests of holders of the Floating Rate Notes and the Fixed Rate Notes may be inconsistent, the interests of holders of the New Fixed Rate Notes and the Existing Fixed Rate Notes may be inconsistent and the interests of the holders of the New Notes and additional notes issued under the Indenture from time to time may be inconsistent.

The Existing Fixed Rate Notes were, and the New Notes will be, issued pursuant to a single Indenture. Under the Indenture, the Existing Fixed Rate Notes can vote, and the New Notes will be able to vote, as a single class with respect to amendments, waivers or other modifications of the Indenture other than with respect to amendments, waivers or other modifications that will only affect the relevant series of Notes. The Existing Fixed Rate Notes bear, and the New Fixed Rate Notes will bear, fixed interest rates, have a different call schedule and call protection and have other features that differ from the Floating Rate Notes. As a result of these differences, the interests of holders of the Fixed Rate Notes and the interests of holders of the Floating Rate Notes could conflict. In addition, under the Indenture, the New Fixed Rate Notes constitute a different series of Notes from the Existing Fixed Rate Notes. The holders of one series of Notes, such as the holders of the Existing Fixed Floating Rate Notes, may be in a position to agree to certain terms in a consent solicitation that would be beneficial to such series of Notes but adverse to the economic interest of the other series of notes issued under the Indenture, such as holders of the New Fixed Rate Notes; however, to the extent the relevant amendment or waiver is approved by the holders of a majority in aggregate principal amount of the Notes then outstanding under the Indenture (subject to the limited exceptions), all holders of Notes under the Indenture will be bound by such amendment. Subject to certain restrictions, further series of additional notes may be issued under the Indenture which have different terms in respect of currency, interest rate and certain other matters. Such additional notes will also generally vote as a single class with other series of notes issued under the Indenture but may have interests that differ from the holders of other series of notes issued under the Indenture, including the New Notes.

The Floating Rate Notes will be issued with original issue discount ("OID") for United States federal income tax purposes.

If the stated principal amount of Floating Rate Notes exceeds their issue price by an amount equal to or more than 0.25% multiplied by the product of the stated redemption price at maturity and the number of complete years to maturity from the issue date, as in the case of the Offering, the Floating Rate Notes will be issued with OID for United States federal income tax purposes. Accordingly, in addition to the stated interest on the Floating Rate Notes, a holder of the Floating Rate Notes subject to United States federal income taxation will be required to include the OID in gross income (as ordinary income), on a constant yield to maturity basis, in advance of the receipt of the cash payment thereof and regardless of such holder's regular method of accounting for United States federal income tax purposes. See "Tax Considerations—Certain United States Federal Income Tax Consequences."

Additional Notes sold pursuant to Regulation S may not be fungible with existing Notes for U.S. federal income tax purposes.

Additional Notes sold pursuant to Regulation S from time to time may be issued with the same ISIN, Common Code, CUSIP or other securities identification number as the applicable series of notes previously issued under the Indenture without being fungible with such series of notes for U.S. federal income tax purposes.

If you are a U.S. holder (as defined in "Tax Considerations—Certain United States Federal Income Tax Consequences") considering the purchase of Notes sold pursuant to Regulation S, you should consult your tax advisors concerning the particular U.S. federal income tax consequences to you of the purchase, ownership and disposition of such Notes, including with respect to the potential issuance of additional Notes that are not fungible with the applicable series of initial notes issued under the Indenture for U.S. federal income tax purposes, but which nevertheless are not capable of being separately identified.

If certain changes to tax law were to occur, we would have the option to redeem the Notes.

If certain changes in the law of any Relevant Taxing Jurisdiction, as defined under "Description of the Notes—Additional Amounts," become effective that would impose withholding taxes or other deductions on the payments on the Notes or the Note Guarantees, we may redeem the Notes in whole, but not in part, at a redemption price of 100% of the principal amount, plus accrued and unpaid interest, if any, and additional amounts, if any, to the date of redemption. We are unable to determine whether such a change to any tax laws will be enacted, but if such change does occur, the Notes will be redeemable at our option.

The incurrence of permitted debt in the future may create or restart hardening periods, i.e. the periods of time following the granting of security interests during which such security interests may be challenged in accordance with the laws applicable in England, Wales and the Cayman Islands.

The granting of shared security interests to secure future indebtedness permitted to be secured by the Collateral may restart or reopen such hardening periods, as the Indenture permits the release and retaking of security granted in favor of the Notes in certain circumstances, including in connection with the incurrence of future indebtedness. The applicable hardening periods for these new security interests can run from the moment each new security interest has been granted or perfected. At each time, if the security interest granted or perfected were to be enforced before the end of the respective hardening period applicable in such jurisdiction, it may be declared void or ineffective and it may not be possible to enforce such security interest. The same rights also apply in connection with the accession of subsidiaries as additional Guarantors to the Notes and the granting of security interests over their respective assets and equity interests for the benefit of holders of the Notes.

Risks Related to Our Structure

The Issuer is a wholly owned finance subsidiary that does not have any revenue generating operations of its own and depends on cash from operating companies to be able to make payments on the New Notes.

The Issuer is organized as a special purpose finance subsidiary to facilitate the offering of debt securities with no business operations or material assets, other than its rights under the Existing Proceeds Loan Agreements and, following the Issue Date, its rights under the New Proceeds Loan Agreements. The Issuer is dependent upon the cash flow from our operating companies to meet its obligations under the Notes. We intend to provide funds to the Issuer in order for the Issuer to meet its obligations under the Notes principally through payments made pursuant to the Issuer's Existing Proceeds Loan Agreements and the New Proceeds Loan Agreements with Bidco. We intend to provide funds to Bidco to service the payments under the Existing Proceeds Loan Agreements and the New Proceeds Loan Agreements principally through the provisions of intercompany loans, dividends and other distributions. If entities within our group do not fulfill their obligations under any such intercompany loans and do not otherwise distribute cash to Bidco, in order for the Issuer to make scheduled payments on the Notes, the Issuer will not have any other source of funds that would allow it to make payments to the holders of the Notes. The amount of cash available to the Issuer will depend on the profitability and cash flows of our operating companies and the ability of those companies to transfer funds under applicable law. Our operating companies, however, may not be able to, or may not be permitted under applicable law to, make distributions or advance loans, directly or indirectly, to the Issuer in order for the Issuer to make payments in respect of the Notes. Various agreements governing our debt may restrict, and in some cases, may prevent the ability of the members of our group to transfer funds within the group. In addition, the members of our group that do not guarantee the Notes have no obligation to make payments with respect to the Notes.

The interests of our controlling shareholder may differ from the interests of the holders of the New Notes.

TDR Capital indirectly beneficially owns approximately 99.5% of the outstanding shares of the Parent. As a result, TDR Capital is able to control matters requiring shareholder approval, including the election and removal of our directors, our corporate and management policies, potential mergers or acquisitions, payment of dividends, asset sales and other significant corporate transactions. The interests of TDR Capital may differ from yours in material respects. For example, if we encounter financial difficulties or are unable to pay our debts as they mature, the interests of TDR Capital, as ultimate majority shareholder, may be in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity investment, even though such transactions might involve risks to you as a holder of the New Notes. TDR Capital has no contractual obligations to fund our business and may not have sufficient liquidity to fund our business if we require additional funding. Additionally, the Indenture permits us to pay management fees, dividends or make other restricted payments under certain circumstances, and TDR Capital may have an interest in our doing so. See "Certain Relationships and Related Party Transactions."

Furthermore, TDR Capital and their affiliates are in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete directly and indirectly with us, or with which we conduct business. TDR Capital and their affiliates may also pursue acquisition opportunities that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us. You should consider that the interests of these holders may differ from yours in material respects. See "Principal Shareholders" and "Certain Relationships and Related Party Transactions."

We may not be able to obtain the funds required to repurchase the Notes upon a change of control.

The Indenture contains provisions relating to certain events constituting a "change of control" of the Issuer. Upon the occurrence of a change of control, we will be required to offer to repurchase all outstanding Notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest and additional amounts, if any, to the date of repurchase. If a change of control were to occur, we cannot assure you that we would have sufficient funds available at such time, or that we would have sufficient funds to provide to the Issuer to pay the purchase price of the outstanding Notes or that the restrictions in our Indenture, the Intercreditor Agreement, the Revolving Facilities Agreement, the Senior Term Facilities Agreement, the Second Lien Facility Agreement, the agreements governing the Unique Securitized Notes, the Unique Intercompany Loan Agreement or our other then-existing contractual obligations would allow us to make such required repurchases. A change of control may result in a mandatory prepayment under the Revolving Credit Facilities Agreement and a right to require repayment of outstanding loans under the Senior Term Facilities Agreement and the Second Lien Facility Agreement. The exercise of the right of holders of the Notes to require the repurchase of the Notes upon a change of control could cause a default under our debt documents, even if the change of control itself does not. The ability of the Issuer to receive cash from members of our group to allow it to pay cash to the holders of the Notes, following the occurrence of a change of control, may be limited by our then-existing financial resources. In addition, under the terms of the Revolving Facilities Agreement, under certain circumstances, we are required to repay an equal amount of debt and cancel the corresponding commitments under our Revolving Facilities Agreement if we repay all or a portion of the principal under the Notes. Sufficient funds may not be available when necessary to make any required repurchases. If an event constituting a change of control occurs at a time when we are prohibited from providing funds to the Issuer for the purpose of repurchasing the Notes, we may seek the consent of the lenders under such indebtedness to the purchase of the Notes or may attempt to refinance the borrowings that contain such prohibition. If such a consent to repay such borrowings is not obtained, the Issuer will remain prohibited from repurchasing any Notes. In addition, we expect that we would require third party financing to make an offer to repurchase the Notes upon a change of control. We cannot assure you that we would be able to obtain such financing. Any failure by the Issuer to offer to purchase the Notes would constitute a default under the Indenture, which would, in turn, constitute a default under the Revolving Facilities Agreement, the Senior Term Facilities Agreement and the Second Lien Facility Agreement. See "Description of the Notes—Change of Control."

The change of control provision contained in the Indenture may not necessarily afford you protection in the event of certain important corporate events, including a reorganization, restructuring, merger or other similar transaction involving us that may adversely affect you, because such corporate events may not involve a shift in voting power or beneficial ownership or, even if they do, may not constitute a "Change of Control" as defined in the Indenture. See "Description of the Notes—Change of Control." Except as described under "Description of the Notes—Change of Control," the Indenture does not contain provisions that would require the Issuer to offer to repurchase or redeem the Notes in the event of a reorganization, restructuring, merger, recapitalization or similar transaction.

In addition, the occurrence of certain events that might otherwise constitute a change of control will be deemed not to be a change of control if a defined consolidated leverage ratio does not exceed a certain level in connection with such event. In the event the Parent is sold to a new investor, whether or not such sale constitutes a change of control under the Indenture, no assurance can be given that any such investor will continue to implement our current business and financial strategy. See "Description of the Notes—Change of Control" and "Description of the Notes—Certain Definitions—Specified Change of Control Event."

The definition of "Change of Control" in the Indenture includes a disposition of all or substantially all of the assets of the Parent and its restricted subsidiaries, taken as a whole, to any person. Although there is a limited body of case law interpreting the phrase "all or substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances, there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of "all or substantially all" of the Parent's and its restricted subsidiaries' assets, taken as a whole. As a result, it may be unclear as to whether a change of control has occurred and whether the Issuer is required to make an offer to repurchase the Notes.

Upon an IPO Pushdown, certain Note Guarantees and Collateral may be released, and any retaken Collateral may be subject to hardening periods.

Under certain circumstances, we may undertake an IPO Pushdown. See "Description of the Notes—IPO Pushdown." Upon consummation of the IPO Pushdown (as defined in "Description of the Notes"), references to the Parent and Restricted Subsidiaries (and all related provisions) in the Indenture shall apply only to the IPO Pushdown Entity (as defined in "Description of the Notes") and its Restricted Subsidiaries from time to time, although the Issuer shall remain the same entity. Upon such substitution, each Holding Company (as defined in "Description of the Notes") of the IPO Pushdown Entity will be irrevocably and unconditionally released from all obligations under the Indenture and the Intercreditor Agreement and any Note Guarantees or security granted by such Holding Company in respect of the Indenture and the New Notes will be released. In such a case, new security documents in respect of collateral to be retaken and that will remain in place following an IPO Pushdown, including the pledge of the shares of the Issuer, may need to be executed and be subject to new hardening periods.

In addition, the IPO Pushdown may result in a deemed exchange of the New Notes for United States federal income tax purposes, depending upon the specific circumstances of the IPO Pushdown, and may have tax consequences for U.S. holders (as defined in "Tax Considerations—Certain United States Federal Income Tax Consequences"), including recognition of gain or loss on such deemed exchange. See "Tax Considerations—Certain United States Federal Income Tax Consequences—IPO Pushdown."

English and Cayman Islands insolvency laws and other jurisdictions may provide you with less protection than U.S. bankruptcy law.

The Issuer and certain members of our group, including most of the Guarantors, are incorporated under the laws of England and Wales. Accordingly, insolvency proceedings with respect to any of those entities would be likely to proceed under, and be governed by, English insolvency law. In addition, the Parent and certain other Guarantors are incorporated under the laws of the Cayman Islands. Accordingly, insolvency proceedings with respect to any of those entities would be likely to proceed under, and be governed by, the laws of the Cayman Islands. English or Cayman Islands insolvency law may not be as favorable to investors as the laws of the United States or other jurisdictions with which investors are familiar. In the event that any one or more of the Issuer or Guarantors experiences financial difficulty, it is not possible to predict with certainty the outcome of insolvency or similar proceedings.

In the event that any one or more of the Issuer, the Guarantors, any future guarantors, if any, or any other of the Parent's subsidiaries were to experience financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced, or the outcome of such proceedings. Any Note Guarantees and Collateral provided by entities organized in jurisdictions not discussed in this Offering Memorandum are also subject to material limitations pursuant to their terms, by statute or otherwise. Any enforcement of the Note Guarantees or security after bankruptcy or an insolvency event in such other jurisdictions will be subject to the insolvency laws of the relevant entity's jurisdiction of organization or other jurisdictions. The insolvency and other laws of each of these jurisdictions may be materially different from, or in conflict with, each other, including in the areas of rights of secured and other creditors, the ability to void preferential transfer, priority of governmental and other creditors, ability to obtain post-petition interest and duration of the proceeding. The application of these laws, or any conflict among them, could call into question whether any particular jurisdiction's laws should apply, adversely affect your ability to enforce your rights under the Note Guarantees or the Collateral in these jurisdictions and limit any amounts that you may receive. See "Limitations on Validity and Enforceability of the Note Guarantees and Security Interests."

Each Note Guarantee is subject to certain limitations on enforcement and may be limited by applicable laws or subject to certain defenses that may limit its validity and enforceability.

Each Note Guarantee provides the holders of the Notes with a direct claim against the relevant Guarantor. However, the Indenture provides that each Note Guarantee will be limited to the maximum amount that can be guaranteed by the relevant Guarantor without rendering the relevant Note Guarantee, as it relates to that Guarantor, voidable or otherwise ineffective or limited under applicable law, and enforcement of each Note Guarantee would be subject to certain generally available defenses. See "Limitations on Validity and Enforceability of the Note Guarantees and Security Interests."

Enforcement of any of the Note Guarantees against any Guarantor will be subject to certain defenses available to Guarantors in the relevant jurisdiction. Although laws differ among these jurisdictions, these laws and defenses generally include those that relate to corporate purpose or benefit, fraudulent conveyance or transfer, voidable preference, insolvency or bankruptcy challenges, financial assistance, preservation of share capital, thin capitalization, capital maintenance or similar laws, regulations or defenses affecting the rights of creditors generally. If one or more of these laws and defenses are applicable, a Guarantor may have no liability or decreased liability under its Note Guarantee depending on the amounts of its other obligations and applicable law. Limitations on the enforceability of judgments obtained in New York courts in such jurisdictions could limit the enforceability of any Note Guarantee against any Guarantor. In addition, the laws, regulations or other governmental measures introduced in response to the COVID-19 pandemic may have the effect of imposing a moratorium on or otherwise delaying or limiting the ability to enforce or pursue certain remedies in respect of the Note Guarantees.

Although laws differ among various jurisdictions, in general, under bankruptcy or insolvency law and other laws, a court could (i) avoid or invalidate all or a portion of a Guarantor's obligations under its Note Guarantee, (ii) direct that the holders of the Notes return any amounts paid under a Note Guarantee to the relevant Guarantor or to a fund for the benefit of the Guarantor's creditors or (iii) take other action that is detrimental to you, typically if the court found that:

- the relevant Note Guarantee was incurred with actual intent to give preference to one creditor over another, hinder, delay or defraud creditors or shareholders of the Guarantor or, in certain jurisdictions, when the granting of the Note Guarantee has the effect of giving a creditor a preference or when the recipient was aware that the Guarantor was insolvent when it granted the relevant Note Guarantee;
- the Guarantor did not receive fair consideration or reasonably equivalent value or corporate benefit for the relevant Note Guarantee and the Guarantor was: (i) insolvent or rendered insolvent because of the relevant Note Guarantee; (ii) undercapitalized or became undercapitalized because of the relevant Note Guarantee; or (iii) intended to incur, or believed that it would incur, indebtedness beyond its ability to pay at maturity;
- the relevant Note Guarantee was held to exceed the corporate objects of the Guarantor or not to be in the best interests or for the corporate benefit of the Guarantor; or
- the amount paid or payable under the relevant Note Guarantee was in excess of the maximum amount permitted under applicable law.

These or similar laws may also apply to any future guarantee granted by any of our subsidiaries pursuant to the Indenture.

We cannot assure you which standard a court would apply in determining whether a Guarantor was "insolvent" at the relevant time or that, regardless of method of valuation, a court would not determine that a Guarantor was insolvent on that date, or a that a court would not determine, regardless of whether or not a Guarantor was insolvent on the date its Note Guarantee was issued, that payments to holders of the Notes constituted preferences, fraudulent transfers or conveyances on other grounds.

The liability of each Guarantor under its Note Guarantee will be limited to the amount that will result in such Note Guarantee not constituting a preference, fraudulent conveyance or improper corporate distribution or otherwise being set aside. However, there can be no assurance as to what standard a court will apply in making a determination of the maximum liability of each Guarantor. There is a possibility that the entire Note Guarantee may be set aside, in which case the entire liability may be extinguished.

If a court were to decide that a Note Guarantee was a preference, fraudulent transfer or conveyance and voided such Note Guarantee, or held it unenforceable for any other reason, you may cease to have any claim in respect of the relevant Guarantor and would be a creditor solely of the Issuer and, if applicable, of any other Guarantor under the relevant Note Guarantee which has not been declared void. In the event that any Note Guarantee is invalid or unenforceable, in whole or in part, or to the extent the agreed limitation of the Note Guarantee obligations apply, the Notes would be effectively subordinated to all liabilities of the applicable Guarantor, and if we cannot satisfy our obligations under the Notes or any Note Guarantee is found to be a preference, fraudulent transfer or conveyance or is otherwise set aside, we cannot assure you that we can ever repay in full any amounts outstanding under the Notes.

There are circumstances other than repayment or discharge of the Notes under which the Collateral securing the Notes and the Note Guarantees will be released automatically and under which the Note Guarantees will be released automatically, without your consent or the consent of the Trustee.

Under various circumstances, Collateral securing the Notes and the Note Guarantees will be released automatically, including:

- in connection with any sale or other disposition of the property or assets constituting Collateral, if the sale or other disposition does not violate the "Limitation on Sale of Assets and Subsidiary Stock" covenant or other provisions of the Indenture;
- in the case of a Guarantor that is released from its Note Guarantee pursuant to the terms of the Indenture, the release of the property and assets, and share capital, of such Guarantor;
- if the Parent designates any restricted subsidiary to be an unrestricted subsidiary in accordance with the applicable provisions of the Indenture, the release of the property and assets, and share capital, of such subsidiary;
- in accordance with the "Amendments and Waivers" provisions of the Indenture;
- upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture as provided under the captions "Description of the Notes—Defeasance," and "Description of the Notes—Satisfaction and Discharge;" or
- in connection with an enforcement sale pursuant to the Intercreditor Agreement.

In addition, under various circumstances, the Note Guarantees will be released automatically, including:

- in connection with any sale or other disposition of all or substantially all of the assets of a Guarantor (including by way of merger or consolidation) or the share capital of that Guarantor to a person that is not (either before or after giving effect to such transaction) the Parent or a restricted subsidiary of the Parent, if the sale or other disposition does not violate the "Limitation on Sale of Assets and Subsidiary Stock" covenant in the Indenture and the relevant Guarantor ceases to be a Restricted Subsidiary as a result of the sale or other disposition;
- if the Parent designates any restricted subsidiary that is a Guarantor to be an unrestricted subsidiary in accordance with the applicable provisions of the Indenture;
- in accordance with the "Amendments and Waivers" provisions of the Indenture;
- upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture as provided under the captions "Description of the Notes—Defeasance," and "Description of the Notes—Satisfaction and Discharge;" or
- in connection with an enforcement sale pursuant to the Intercreditor Agreement.

In addition, the Note Guarantees will each be subject to release upon enforcement sale as contemplated under the Intercreditor Agreement. Unless consented to, the Intercreditor Agreement will provide that the Security Agent shall not, in an enforcement scenario, exercise its rights to release the relevant Note Guarantees or security interests in the Collateral unless the relevant sale or disposal is made:

- for consideration all or substantially all of which is in the form of cash; and
- pursuant to a public auction, or a fairness opinion has been obtained from a financial advisor.

See "Description of Other Indebtedness—Intercreditor Agreement" and "Description of the Notes."

The New Notes will initially be held in book-entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.

The New Notes will initially only be issued in global certificated form and held through Euroclear and Clearstream. Interests in the global New Notes will trade in book-entry form only, and New Notes in definitive registered form, or definitive registered New Notes, will be issued in exchange for book entry interests only in very limited circumstances. Owners of the book-entry interests will not be considered owners or holders of New Notes unless and until definitive notes are issued in exchange for book-entry interests. Instead, the common depositary (or its nominee) for Euroclear and Clearstream will be the sole registered holder of the New Notes in global form.

Payments of principal, interest and other amounts owing on or in respect of the New Notes in global form will be made to the Paying Agent, which will make payments to Euroclear and Clearstream. Thereafter, such payments will be credited to Euroclear and Clearstream participants' accounts that hold book-entry interests in the New Notes in global form and credited by such participants to indirect participants. After payment to the common depositary for Euroclear and Clearstream, none of the Issuer, the Guarantors, the Trustee, the Paying Agent, any other paying agent or any registrar will have any responsibility or liability for any aspect of the records relating to or payments of interest, principal or other amounts to Euroclear and Clearstream, or to owners of book-entry interests. Accordingly, if you own a book-entry interest in the New Notes, you must rely on the procedures of Euroclear and Clearstream and, if you are not a participant in Euroclear and/or Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder of the New Notes under the Indenture.

Owners of book-entry interests will not have the direct right to act upon our solicitations for consents or requests for waivers or other actions from holders of the New Notes, including enforcement of security for the New Notes and the Note Guarantees. Instead, if you own a book-entry interest, you will be reliant on the common depositary (as registered holder of the New Notes) to act on your instructions and/or will be permitted to act directly only to the extent you have received appropriate proxies to do so from Euroclear and Clearstream or, if applicable, from a participant. We cannot assure you that procedures implemented for the granting of such proxies will be sufficient to enable you to vote on any requested actions or to take any other action on a timely basis.

The New Fixed Rate Notes will be issued with ISINs and common codes that are different from ISINs and common codes of the Existing Fixed Rate Notes, which may adversely affect the liquidity of the New Fixed Rate Notes and cause the New Fixed Rate Notes to trade at different prices than the Existing Fixed Rate Notes.

The New Fixed Rate Notes offered hereby will constitute a series of Notes under the Indenture that is separate from the Existing Fixed Rate Notes, will have ISINs and common codes that are different from the ISINs and common codes of the Existing Fixed Rate Notes and will not be fungible with the Existing Fixed Rate Notes for U.S. federal income tax purposes. The lack of fungibility of the New Fixed Rate Notes with the Existing Fixed Rate Notes may adversely affect the liquidity of the New Fixed Rate Notes and cause the New Fixed Rate Notes to trade at different prices than the Existing Fixed Rate Notes. In addition, the New Fixed Rate Notes will bear a different rate of interest to the Existing Fixed Rate Notes.

There may not be an active trading market for the New Notes, in which case your ability to sell the New Notes may be limited.

We cannot assure you as to:

- the liquidity of any market in the New Notes;
- your ability to sell your New Notes; or
- the prices at which you would be able to sell your New Notes.

Future trading prices for the New Notes will depend on many factors, including, among other things, prevailing interest rates, our operating results and the market for similar securities. Historically, the market for non-investment grade securities has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the New Notes. The liquidity of a trading market for the New Notes may be adversely affected by a general decline in the market for similar securities and is subject to disruptions that may cause volatility in prices. The trading market for the New Notes may attract different investors and this may affect the extent to which the New Notes may trade. It is possible that the market for the New Notes will be subject to disruptions. Any such disruption may have a negative effect on you, as a holder of the New Notes, regardless of our prospects and financial performance. As a result, there is no assurance that there will be an active trading market for the New Notes. If no active trading market develops, you may not be able to resell your holding of the New Notes at a fair value, if at all.

Although an application will be made to the Exchange for the listing of and permission to deal in the New Notes on the Official List of the Exchange, we cannot assure you that the New Notes will be or remain listed. Although no assurance is made as to the liquidity of the New Notes as a result of the permission to deal in the New Notes on the Official List of the Exchange being granted, failure to be approved for listing or the delisting (whether or not for an alternative admission to listing on another stock exchange) of the New Notes, as applicable, from the Official List of the Exchange may have a material effect on a holder's ability to resell the New Notes, as applicable, in the secondary market.

In addition, the Indenture allows us to issue additional notes in the future, which could adversely impact the liquidity of the New Notes. See "Description of the Notes—Additional Notes."

Credit ratings may not reflect all risks, are not recommendations to buy or hold securities and may be subject to revision, suspension or withdrawal at any time.

One or more independent credit rating agencies may assign credit ratings to the New Notes. The credit ratings address our ability to perform our obligations under the terms of the New Notes and credit risks in determining the likelihood that payments will be made when due under the New Notes. The ratings may not reflect the potential impact of all risks related to the structure, market, additional risk factors discussed above and other factors that may affect the value of the New Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal by the rating agency at any time. No assurance can be given that a credit rating will remain constant for any given period of time or that a credit rating will not be lowered or withdrawn entirely by the credit rating agency if, in its judgment, circumstances in the future so warrant. A suspension, reduction or withdrawal at any time of the credit rating assigned to the New Notes by one or more of the credit rating agencies may adversely affect the cost and terms and conditions of our financings and could adversely affect the value and trading of the New Notes.

The transferability of the New Notes may be limited under applicable securities laws.

The New Notes and the Note Guarantees have not been, and will not be, registered under the Securities Act or the securities laws of any state or any other jurisdiction and, unless so registered, may not be offered or sold in the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and the applicable securities laws of any state or any other jurisdiction. See "Transfer Restrictions." It is the obligation of holders of the New Notes to ensure that their offers and sales of the New Notes within the United States and other countries comply with applicable securities laws.

Investors may not be able to recover in civil proceedings for U.S. securities law violations.

The Issuer and the Guarantors and their respective subsidiaries are organized outside the United States, and their business is conducted outside the United States. The directors and executive officers of the Issuer and the Guarantors are non-residents of the United States. Although the Issuer and the Guarantors will submit to the jurisdiction of certain New York courts in connection with any action under U.S. securities laws or under the Indenture, you may be unable to effect service of process within the United States on the directors and executive officers of the Issuer and the Guarantors. In addition, because the assets of the Issuer and the Guarantors and the assets of their directors and executive officers are located outside of the United States, you may be unable to enforce against them judgments obtained in the U.S. courts. Moreover, in light of recent decisions of the U.S. Supreme Court, actions of the Issuer and the Guarantors may not be subject to the civil liability provisions of the federal securities laws of the United States. See "Enforcement of Civil Liabilities."

Investors in and purchasers of the Notes may have limited or no recourse against the independent auditors.

See "Independent Auditors" for a description of the reports of KPMG LLP, the independent auditors' of Stonegate Group ("Stonegate Group Independent Auditors"), including language limiting their scope of responsibility in relation to their audit work. Investors in and purchasers of the Notes may have limited or no recourse against the Stonegate Group Independent Auditors.

Investors in and purchasers of the Notes should understand that consistent with guidance issued by ICAEW, the Institute of Chartered Accountants in England and Wales, the Stonegate Group Independent Auditors' reports included elsewhere in this Offering Memorandum each states that the relevant report has been prepared for the Parent and other named parties (the "Addressees") solely in response to a request from the Addressees for an audit opinion from Stonegate Group Independent Auditors on the directors' reports and financial statements; that the report was designed to meet the agreed requirements of the Addressees determined by their needs at the time; that the report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against the Stonegate Group Independent Auditors other than the Addressees for any purpose or in any context; that any party other than the Addressees who obtains access to the report or a copy and chooses to rely on the report (or any part of it) will do so at its own risk; and that to the fullest extent permitted by law, the Stonegate Group Independent Auditors will accept no responsibility or liability in respect of the report to any other party. In the context of the Offering, the Stonegate Group Independent Auditors have reconfirmed to us that they do not intend their duty of care in respect of their audits to extend to any party, such as investors in and purchasers of the Notes, other than the Addressees of their reports.

Without in any way or on any basis affecting or adding to or extending the Stonegate Group Independent Auditors' duties and responsibilities to the Addressees or giving rise to any duty or responsibility being accepted or assumed by or imposed on the Stonegate Group Independent Auditors to any party except the Addressees, the Stonegate Group Independent Auditors have provided consent to the Parent's inclusion, independently of the Stonegate Group Independent Auditors, of the audit reports with the historical financial statements to which they relate in this Offering Memorandum for the proposed issuance of the New Notes, thereby demonstrating that an audit of the directors' reports and financial statements for each relevant period has been undertaken for the Addressees. The consent provided by the Stonegate Group Independent Auditors is different from a consent filed with the SEC under Section 7 of the Securities Act, which is applicable only to transactions involving securities registered under the Securities Act. As the New Notes have not been and will not be registered under the Securities Act, the Stonegate Group Independent Auditors have not filed a consent under Section 7 of the Securities Act. The Stonegate Group Independent Auditors' reports on the historical financial statements for the 52 weeks ended September 24, 2017, the 53 weeks ended September 30, 2018 and the 52 weeks ended September 29, 2019, are included elsewhere in this Offering Memorandum.

The SEC would not permit such limiting language to be included in a registration statement or a prospectus used in connection with an offering of securities registered under the Securities Act, or in a report filed under the Exchange Act. If a U.S. court (or any other court) were to give effect to the language set out above, the recourse that investors in and purchasers of the New Notes may have against the Stonegate Group Independent Auditors based on their reports or the directors' reports and financial statements to which they relate could be limited. The extent to which Stonegate Group Independent Auditors may have responsibility or liability to third parties can be unclear under the laws of many jurisdictions, including the United Kingdom. The inclusion of the language referred to above, however, may limit the ability of holders of the New Notes to bring any action against the Stonegate Group Independent Auditors for damages arising out of an investment in or purchase of the New Notes.

USE OF PROCEEDS

We intend to use the proceeds from this Offering to:

- repay in full the outstanding borrowings under the Senior Bridge Facilities that we used, together with certain other funding, to finance the Transaction and to refinance certain indebtedness of Ei Group and Stonegate Group; and
- repay £273 million in aggregate principal amount of borrowings under the Senior Term Facilities that we used, together with certain other funding, to finance the Transaction and to refinance certain indebtedness of Ei Group and Stonegate Group; and

Actual amounts are subject to adjustments and may vary from estimated amounts depending on several factors, including the currency exchange rate movements.

Sources	£ in millions	Uses	£ in millions
New Notes offered hereby(1)	**1,223**	Repayment of the outstanding borrowings under the Senior Bridge Facilities(2)	950
		Repayment of the outstanding borrowings under the Senior Term Facilities(2)	273
Total sources	**1,223**	**Total uses**	**1,223**

(1) Represents the gross proceeds that we expect to receive from the issuance of the New Notes offered hereby net of original issue discount and assuming an exchange rate of €1.00=£0.91 for the Floating Rate Notes, after adjustments for contributions in respect of original issue discount. We intend to increase borrowings under the Senior Term Facilities by approximately £2.7 million to make up a portion of the shortfall in the amount required to repay the principal amount of the Senior Term Facilities on or about the Issue Date, as a result of lower gross proceeds that we expect to receive from the issuance of the Floating Rate Notes because of the original issue discount in respect of these Floating Rate Notes. We intend to enter into currency hedging in respect of the Floating Rate Notes prior to the Issue Date. If the pound sterling amount of hedged proceeds is lower than the amount required to repay the Senior Term Facilities on or about the Issue Date, we intend to fund the difference from cash on our balance sheet.

(2) The original financing for the Transaction and the refinancing of certain indebtedness of Ei Group and Stonegate Group included: (a) £740 million in aggregate amount of equity invested by Midco and various investment funds managed by TDR Capital; (b) £325 million in aggregate amount of borrowings under the PIK Facility Agreement; (c) £1,450 million in aggregate amount of borrowings under the Senior Bridge Facilities Agreement; (d) £450 million in aggregate amount of borrowings under the Senior Term Facilities Agreement; and (e) £400 million in aggregate amount of borrowings under the Second Lien Facility Agreement. On July 13, 2020, the Issuer issued £500 million in aggregate principal amount of the Existing Fixed Rate Notes, which was used to prepay £500 million of borrowings under the Senior Bridge Facilities. On or about the Issue Date, we intend to repay the remaining £950 million of borrowings under the Senior Bridge Facilities Agreement and repay £273 million in aggregate principal amount of borrowings under the Senior Term Facilities Agreement, with the proceeds of the Offering. On or about the Issue Date, the Issuer will on-lend the proceeds of the Offering to Bidco, which will apply the proceeds to (i) repay the outstanding borrowings under the Existing Proceeds Loans to the Issuer, which the Issuer will in turn use to repay the outstanding borrowings under the Senior Bridge Facilities Agreement and (ii) repay £273 million in aggregate principal amount of borrowings under the Senior Term Facilities Agreement. We intend to pay the accrued and unpaid interest related to the Senior Bridge Facilities and the Senior Term Facilities from cash on balance sheet on or about the Issue Date. We also intend to pay fees and expenses, including certain underwriting commissions, advisory and other professional fees and transaction costs, payable in connection with the Transaction Financing, from our cash on balance sheet.

CAPITALIZATION

The following table sets forth the Parent's consolidated cash and cash equivalents and total consolidated capitalization and certain other balance sheet information as of April 12, 2020, on an actual basis and on an adjusted basis to give effect to the issuance of the Notes and £50 million of equity contribution by TDR Capital in July 2020, and application of the proceeds therefrom. The adjusted information below is illustrative only and does not purport to be indicative of our capitalization following the issuance of the Notes and £50 million of equity contribution by TDR Capital in July 2020, and the application of the proceeds therefrom.

You should read this table together with the sections of this Offering Memorandum entitled "Use of Proceeds," "Stonegate Group's Selected Historical Consolidated Financial Information," "Ei Group's Selected Historical Consolidated Financial Information," "Stonegate Group Management's Discussion and Analysis of Financial Condition and Results of Operations," "Ei Group Management's Discussion and Analysis of Financial Condition and Results of Operations" and the historical consolidated financial statements and related notes of Stonegate Group and Ei Group included elsewhere in this Offering Memorandum.

	As of April 12, 2020	
	Actual	**Adjusted**
£ in millions		
Cash and cash equivalents(1)	**319**	**353**
Third-party borrowings:		
Existing Fixed Rate Notes(2)	—	500
New Notes offered hereby(3)	—	1,223
Revolving Facilities(4)	200	200
Senior Bridge Facilities(5)	1,450	—
Senior Term Facilities(6)	450	180
Second Lien Facility(7)	400	400
Unique Securitized Notes(8)	678	678
Total third-party debt(9)	**3,178**	**3,178**
Capitalized transaction costs(10)	(77)	(57)
Total third-party debt less capitalized transaction costs	3,101	3,121
Total equity(11)	911	961
Total capitalization	**4,012**	**4,082**

(1) The actual amount of cash and cash equivalents reflects £107 million of cash held at Unique Group (by UPP and the Unique Issuer) as of April 12, 2020, of which £65 million was held in a securitized reserve account. The actual amount of cash and cash equivalents also reflects £25 million drawn under the overdraft facility of our Revolving Facilities and approximately £10 million of cash held by the EIG Insurance Captive Cell to which we have restricted access. Cash held by the EIG Insurance Captive Cell is intended to be used for the payment of insurance claims or can be returned to Ei Group as a dividend if there are underwriting profits. The adjusted amount of cash and cash equivalents reflects (i) £50 million of equity contribution by TDR Capital in July 2020, which we intend to retain as cash on our balance sheet and to utilize to finance our business and operational needs as required, (ii) an estimated £3.1 million of accrued and unpaid interest related to the Senior Bridge Facilities and the Senior Term Facilities being repaid, assuming they get repaid on or about July 31, 2020, which we intend to pay from cash on balance sheet on or about the Issue Date and (iii) an estimated £12.7 million of fees in connection with the issuance of the Notes, part of which we paid from cash on balance sheet on or about July 13, 2020 in connection with the issuance of the Existing Fixed Rate Notes and the remainder of which we intend to pay from cash on balance sheet on or about the Issue Date.

(2) Represents £500 million in aggregate principal amount of the Existing Fixed Rate Notes that were issued by the Issuer on July 13, 2020, excluding any accrued and unpaid interest.

(3) Represents the aggregate principal amount of the New Fixed Rate Notes and the Floating Rate Notes at an assumed exchange rate of €1.00=£0.91 for the Floating Rate Notes. See "Use of Proceeds."

(4) On July 17, 2019, we entered into the Revolving Facilities Agreement, which provided for the Revolving Facilities in the amount of £200 million. The Revolving Facilities are available, among other things, for general corporate purposes and for working capital requirements and may be drawn by way of cash advances, issue of letters of credit or ancillary facilities. Effective July 13, 2020, the committed financing under the Revolving Facilities Agreement was increased to £250 million (the additional £50 million of committed capital available for a 23-month period only). See "Description of Other Indebtedness—Revolving Facilities Agreement."

(5) On July 17, 2019, we entered into the Senior Bridge Facilities Agreement, which provides for the Senior Bridge Facilities in the amount of £1,450 million. We have utilized £1,450 million of the Senior Bridge Facilities to, among other things, finance the Transaction and refinance the existing debt of Stonegate Group and Ei Group. See "Description of Other Indebtedness—Senior Bridge Facilities Agreement." On July 13, 2020, the Issuer issued £500 million in aggregate principal amount of the Existing Fixed Rate Notes, the proceeds of which were used to prepay £500 million of borrowings under the Senior Bridge Facilities. On

or about the Issue Date, we intend to repay the remaining borrowings under the Senior Bridge Facilities Agreement with the proceeds of the Offering. See "Use of Proceeds."

(6) On July 17, 2019, we entered into the Senior Term Facilities Agreement, which provides for the Senior Term Facilities in the amount of £450 million. We have utilized £450 million of the Senior Term Facilities to, among other things, finance the Transaction and refinance the existing debt of Stonegate Group and Ei Group. See "Description of Other Indebtedness—Senior Term Facilities Agreement." On or about the Issue Date, we intend to repay £273 million in aggregate principal amount of borrowings under the Senior Term Facilities Agreement with the proceeds of the Offering. We also intend to increase borrowings under the Senior Term Facilities by approximately £2.7 million to make up a portion of the shortfall in the amount required to repay the principal amount of the Senior Term Facilities on or about the Issue Date, as a result of lower gross proceeds that we expect to receive from the issuance of the Floating Rate Notes because of the original issue discount in respect of these Floating Rate Notes. See "Use of Proceeds."

(7) On October 16, 2019, we entered into the Second Lien Facility Agreement, which provides for the Second Lien Facility in the amount of £400 million. We have utilized £400 million of the Second Lien Facility to, among other things, finance the Transaction and refinance the existing debt of Stonegate Group and Ei Group. See "Description of Other Indebtedness—Second Lien Facility Agreement."

(8) Represents £678 million in aggregate principal amount of the Unique Securitized Notes as of April 12, 2020. See "Description of Other Indebtedness—Unique Securitized Notes."

(9) Does not include lease liability of £778 million as of April 12, 2020, calculated in accordance with IFRS 16.

(10) The historical amount of capitalized transaction costs represents £77 million of capitalized transaction costs already incurred in relation to the Transaction Financing. The adjusted amount of capitalized transaction costs reflects £26 million of additional transaction costs estimated to be incurred in connection with the issuance of the Notes and the use of proceeds therefrom and deducts £46 million of capitalized transaction costs relating to the Senior Bridge Facilities and the Senior Term Facilities expected to be written off in connection with their repayment on or about the Issuer Date. See "Use of Proceeds."

(11) The adjusted amount reflects £50 million of equity contribution by TDR Capital in July 2020.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

Basis of Preparation

We present below (i) the unaudited pro forma condensed combined income statement information of Stonegate Group for the 28 weeks ended April 12, 2020 and the 52 weeks ended September 29, 2019 (together, the "Unaudited Pro Forma Condensed Combined Financial Information").

The Unaudited Pro Forma Condensed Combined Financial Information is intended to give effect to the Transaction as though it had occurred on September 30, 2019, in the case of the unaudited pro forma condensed combined income statement information for the 28 weeks ended April 12, 2020, and as though it had occurred on October 1, 2018, in the case of the unaudited pro forma condensed combined income statement information for the 52 weeks ended September 29, 2019. The Unaudited Pro Forma Condensed Combined Financial Information does not give pro forma effect to any other acquisitions completed by Stonegate Group during the 28 weeks ended April 12, 2020 and the 52 weeks ended September 29, 2019.

The unaudited pro forma adjustments to the Unaudited Pro Forma Condensed Combined Financial Information is based upon available information and assumptions which we believe are reasonable in the circumstances. We describe the assumptions underlying the pro forma adjustments in the notes accompanying the applicable statements below, which should be read in conjunction with the relevant Unaudited Pro Forma Condensed Combined Financial Information. Pro forma adjustments reflect only those adjustments which are factually determinable and do not include the impact of contingencies which will not be known until resolution of any such contingency. The Unaudited Pro Forma Condensed Combined Financial Information should not be considered indicative of actual results that would have been achieved had the Transaction been consummated on the date or for the periods indicated and do not purport to indicate results of operations as of any future date or for any future period. The Unaudited Pro Forma Condensed Combined Financial Information has been prepared for illustrative purposes only. Because of its nature, the Unaudited Pro Forma Condensed Combined Financial Information addresses a hypothetical situation and, therefore, does not represent our actual financial position or results of operation.

The Unaudited Pro Forma Condensed Combined Financial Information has not been prepared in accordance with the requirements of Regulation S-X of the Securities Act, the Prospectus Regulation or any generally accepted accounting standards.

The Unaudited Pro Forma Condensed Combined Financial Information should be read in conjunction with the historical consolidated financial statements and accompanying notes included elsewhere in this Offering Memorandum and the "Presentation of Financial and Other Information," "Stonegate Group's Selected Historical Consolidated Financial Information," "Ei Group's Selected Historical Consolidated Financial Information," "Stonegate Group Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Ei Group Management's Discussion and Analysis of Financial Condition and Results of Operations."

Unaudited Pro Forma Condensed Combined Income Statement Information for the 52 weeks ended September 29, 2019

(£ in millions)	Stonegate Group information for the 52 weeks ended September 29, 2019 (1)	Ei Group information for the year ended September 30, 2019(2)	Pro Forma Adjustments(3) Consolidation and accounting adjustments(a)	Financing adjustments(b)	Pro Forma condensed combined information for the 52 weeks ended September 29, 2019
Revenue	**853**	**724**	**—**	**—**	**1,577**
Operating costs	(752)	(456)(i)	—	—	(1,208)(4)
Operating profit/(loss) before depreciation, amortization, impairment, movement in valuation of the estate and related assets and loss on disposal of non-current assets	**100**	**268(ii)**	**—**	**—**	**368(4)**
Total Depreciation, amortization and impairment	(79)	(253)(iii)	(27)(i)	—	(359)
Movement in valuation of the estate and related assets	—	(20)	20(ii)	—	—
Profit/(loss) on sale of non-current assets	(3)	(42)(iv)	—	—	(45)
Operating profit/(loss)	**19**	**(47)**	**(7)**	**—**	**(36)(4)**
Finance income	0	1(v)	—	—	1
Finance costs	(44)	(153)(vi)	9(iii)	(78)	(266)
Profit/(loss) before taxation	**(25)**	**(199)**	**2**	**(78)**	**(300)(4)**
UK income tax credit/ (charge)	1	(10)(vii)	3(iv)	—	(6)
Profit/(loss) for period	**(24)**	**(209)(viii)**	**6**	**(78)**	**(306)(4)**

(1) The income statement information presented above for Stonegate Group has been derived from the audited consolidated financial statements of Stonegate Group as of and for the 52 weeks ended September 29, 2019 appearing elsewhere in this Offering Memorandum.

(2) The income statement information presented above for Ei Group has been derived from the audited consolidated financial statements of Ei Group as of and for the year ended September 30, 2019 appearing elsewhere in this Offering Memorandum. Where the line item descriptions in Ei Group's income statement are different to those of Stonegate Group's income statement, or where we have reclassified certain items on Ei Group's income statement to show them based on Stonegate Group's income statement presented above, we have noted them below.

(i) Represents Operating costs before depreciation and amortisation on Ei's Group's income statement (£456 million).

(ii) Represents EBITDA on Ei's Group's income statement (£268 million).

(iii) Represents the sum of Depreciation and amortisation (£21 million) and Goodwill impairment (£232 million), in each case, derived from Ei's Group's income statement.

(iv) Represents Net loss on sale of property (£42 million) on Ei's Group's income statement.

(v) Represents Interest receivable (£1 million) shown in the notes to Ei's Group's income statement.

(vi) Represents Finance costs (£152 million) on Ei's Group's income statement net of Interest receivable (£1 million) described above.

(vii) Represents Taxation on Ei's Group's income statement (£10 million).

(viii) Represents Loss after tax attributable to members of the Parent Company on Ei's Group's income statement (£209 million).

(3) The following pro forma adjustments have been applied to the income statement information for Stonegate Group to give effect to the Transaction as though it had occurred on October 1, 2018:

(a) *Consolidation and accounting adjustments:*

(i) Reflecting estimated depreciation expense of £27 million, representing:

- £11 million in depreciation expense that we believe we would have recorded for the 52 weeks ended September 29, 2019 in relation to Ei Group's licensed land and buildings. Ei Group held its licensed land and buildings at fair value and landlord's fixtures and fittings and other assets at cost. Ei Group's licensed land and buildings recognized under property, plant and equipment on its consolidated balance sheet were revalued each year by external valuers or employees who are professionally qualified to carry out such valuations. Freehold land was not depreciated.

  This is in contrast to Stonegate Group's accounting policy where land and buildings, which are accounted for under the line item property, plant and equipment on Stonegate Group's consolidated balance sheet, are held at cost less accumulated depreciation, and the related depreciation expense is charged to the income statement on a straight line basis.

Beginning March 3, 2020, when the Transaction was completed, Ei Group's results were consolidated with Stonegate Group's results and were recorded based on Stonegate Group's accounting policies. Ei Group's licensed land and buildings were recorded at fair value as of March 3, 2020 and, from that date onward, their value was depreciated on a straight line basis;

- £8 million in depreciation expense that we believe we would have recorded for the 52 weeks ended September 29, 2019 based on aligning the shorter life of Ei Group's fixtures and fittings with Stonegate Group's accounting policy of a six-year life on fixtures and fittings;
- £6 million in depreciation expense that we believe we would have recorded for the 52 weeks ended September 29, 2019 based on the increase in the fair value of Ei Group's right-of-use assets resulting from acquisition accounting, which, in turn would have resulted in higher depreciation expense;
- £2 million in depreciation expense that we believe we would have recorded for the 52 weeks ended September 29, 2019 based on assigning fair value to certain of Ei Group's operating leases resulting from acquisition accounting, which had not previously been on its balance sheet and had not been amortized.

(ii) Reflecting a reversal of £20 million, which is the amount recorded in respect of movement in valuation of the estate and related assets on Ei Group's income statement because, following the Transaction, Ei Group's estate and related assets will no longer be revalued as explained above. Accordingly, going forward, we will not record movements in estate valuation on our income statement.

(iii) Reflecting an estimated net credit of £9 million under finance costs, representing:

- £20 million of finance credit that we believe we would have recorded under finance costs for the 52 weeks ended September 29, 2019 based on the increase in the fair value of the Unique Securitized Bonds resulting from acquisition accounting; and
- £11 million of finance costs that we believe we would have recorded for the 52 weeks ended September 29, 2019 based on the increase in the fair value of Ei Group's right-of-use assets resulting from acquisition accounting described above.

(iv) Reflecting an estimated tax credit of £3 million, representing the tax impact of the account adjustments described above.

(b) *Financing adjustments, reflecting an increase of £78 million in finance costs, representing:*

(A) the finance costs relating to the following capital structure (the "New Capital Structure") assuming that it was in place on October 1, 2018:

- £1,223 million in aggregate principal amount of the New Notes, assuming that they were issued on October 1, 2018 and remained outstanding in full for the 52 weeks ended September 29, 2019. For the purposes of deriving the finance costs for the Notes, we have assumed a blended interest rate per annum, resulting in aggregate interest expense of £97.1 million;
- £500 million in aggregate principal amount of the Existing Fixed Rate Notes, based on their interest rate of 8.00% per annum, assuming they were issued on October 1, 2018 and remained outstanding for the 52 weeks ended September 29, 2019, resulting in aggregate interest expense of £40 million;
- £180 million in aggregate principal amount of the Senior Term Facilities, based on an assumed interest rate of 5.65% per annum, assuming that the Senior Term Facilities were fully drawn on October 1, 2018 and remained fully drawn for the 52 weeks ended September 29, 2019, resulting in aggregate interest expense of £10 million;
- £400 million in aggregate principal amount of the Second Lien Facility, based on an assumed interest rate of 8.87% per annum, assuming that the Second Lien Facility was fully drawn on October 1, 2018 and remained fully drawn for the 52 weeks ended September 29, 2019, resulting in aggregate interest expense of £35.5 million;
- incremental finance costs we would have incurred in the 52 weeks ended September 29, 2019 in respect of the new Revolving Facilities, assuming that we had the same borrowing profile in respect of our revolving facilities following the completion of the Transactions as Stonegate Group and Ei Group actually had for the 52 weeks ended September 29, 2019 and September 30, 2019, respectively, but based on an assumed blended interest rate of 3.35%, resulting in incremental finance costs of £0.8 million;
- an estimated £9.8 million in debt issue costs for the 52 weeks ended September 29, 2019, representing a straight-line amortization of debt issue costs relating to the New Capital Structure described above (assuming total debt issue costs of £57.3 million and amortization over the period of the relevant debt);

(B) the elimination of £122.9 million in finance costs relating to the old capital structure of Stonegate Group and Ei Group that was repaid in connection with the Transaction, including (i) Stonegate Group's old senior secured notes and old revolving credit facility and (ii) the Ei Secured Corporate Bonds and Ei Unsecured Corporate Bonds, in each case, as though these debt instruments had been repaid in full on October 1, 2018; and

(C) £8 million in write off of unamortized debt issue costs relating to Ei Group's old capital structure, which we would have written off had we repaid this debt on October 1, 2018, resulting in an increase in finance costs for that amount.

(4) the unaudited pro forma condensed combined income statement information for the 52 weeks ended September 29, 2019 does not take into account any adjustments other than those set forth in the table above, including, for example, exceptional costs and expenses incurred in connection with the Transaction that we would normally recognize under operating costs.

Unaudited Pro Forma Condensed Combined Income Statement Information for the 28 weeks ended April 12, 2020

(£ in millions)	Stonegate Group information for the 28 weeks ended April 12, 2020[(1)]	Ei Group for the 13 weeks ended December 28, 2019[(2)]	Ei Group information for the period December 29, 2019 to March 2, 2020[(3)]	Pro Forma Adjustments[(4)] Consolidation and accounting adjustments[(a)]	Pro Forma Adjustments[(4)] Financing adjustments[(b)]	Pro Forma condensed combined information for the 28 weeks ended April 12, 2020
Revenue	**461**	**185**	**115**	**—**	**—**	**761**
Operating costs	(411)	(112)[(i)]	(99)[(i)]	—	—	(622)
Operating profit/(loss) before depreciation, amortization, impairment and loss on disposal of non-current assets	**50**	**73[(ii)]**	**16[(ii)]**	**—**	**—**	**139**
Depreciation, amortization and impairment	(94)	(8)[(iii)]	(6)[(iii)]	(12)[(i)]	—	(120)
Movement in valuation of the estate	—	(5)	(5)	10[(ii)]		—
Profit/(loss) on sale of non-current assets	—	1[(iv)]	2[(iv)]	—	—	3
Operating profit/(loss)	**(44)**	**61**	**7**	**(2)**	**—**	**22**
Finance income	—	—[(v)]	1[(v)]	—	—	1
Finance costs	(69)	(36)	(32)	4[(iii)]	(28)	(162)
Profit/(loss) before taxation	**(113)**	**25**	**(24)**	**2**	**(28)**	**(138)**
UK income tax credit/ (charge)	(20)	(5)[(vi)]	3[(vi)]	1[(iv)]	—	(21)
Profit/(loss) for period	**(133)**	**20[(vii)]**	**(21)[(vii)]**	**4**	**(28)**	**(159)**

(1) The income statement information presented above for Stonegate Group has been derived from the unaudited condensed consolidated interim financial statements of Stonegate Group as of and for the 28 weeks ended April 12, 2020 appearing elsewhere in this Offering Memorandum.

(2) The income statement information presented above for Ei Group for the 13 weeks ended December 28, 2019 has been derived from the unaudited condensed consolidated interim financial statements of Ei Group as of and for the 13 weeks ended December 28, 2019 appearing elsewhere in this Offering Memorandum. Where the line item descriptions in Ei Group's income statement are different to that of Stonegate Group's income statement presented above, or where we have reclassified certain items on Ei Group's income statement to show them based on Stonegate Group's income statement presented above, we have noted them below.

(i) Represents Operating costs before depreciation and amortisation on Ei's Group's income statement (£(112) million).
(ii) Represents EBITDA on Ei's Group's income statement (£73 million).
(iii) Represents the sum of Depreciation and amortisation (£(8) million) and Goodwill impairment (£0), in each case, derived from Ei's Group's income statement.
(iv) Represents Net profit on sale of property (£1 million) on Ei's Group's income statement.
(v) Represents Interest receivable (£0 million) shown in the notes to Ei's Group's income statement.
(vi) Represents Taxation on Ei's Group's income statement (£(5) million).
(vii) Represents Profit after tax attributable to members of the Parent Company on Ei's Group's income statement (£20 million).

(3) Ei Group's income statement information is reflected in Stonegate Group's income statement for the 28 weeks ended April 12, 2020 beginning March 3, 2020. Ei Group's income statement information for the period December 29, 2019 to March 2, 2020 presented in the table above has been derived from the unaudited accounting records of Ei Group for this period. Where the line item descriptions in Ei Group's income statement are different to that of Stonegate Group's income statement, or where we have reclassified certain items on Ei Group's income statement to show them based on Stonegate Group's income statement presented above, we have noted them below.

(i) Represents Operating costs before depreciation and amortisation on Ei's Group's income statement (£(99) million).
(ii) Represents EBITDA on Ei's Group's income statement (£16 million).
(iii) Represents the sum of Depreciation and amortisation (£(6) million) and Goodwill impairment (£0), in each case, derived from Ei's Group's income statement.
(iv) Represents Net profit on sale of property (£2 million) on Ei's Group's income statement.
(v) Represents Interest receivable (£1 million) shown in the notes to Ei's Group's income statement.
(vii) Represents Profit after tax attributable to members of the Parent Company on Ei's Group's income statement (£21 million).

(4) The following pro forma adjustments have been applied to the income statement information for Stonegate Group to give effect to the Transaction as though it had occurred on September 30, 2019:

(a) *Consolidation and accounting adjustments:*

(i) Reflecting estimated depreciation expense of £12 million, representing:

- £5 million in depreciation expense that we believe we would have recorded for the period September 30, 2019 to March 2, 2020 in relation to Ei Group's licensed land and buildings, based on extrapolating for this period the depreciation expense of £1.2 million that we actually recorded in relation to this item for the period March 3, 2020 (the date we completed the Transaction) to April 12, 2020 (the end of our half-year period);
- £3 million in depreciation expense that we believe we would have recorded for the period September 30, 2019 to March 2, 2020 in relation to aligning the shorter life of Ei Group's fixtures and fittings with Stonegate Group's accounting policy of a six-year life on fixtures and fittings, based on extrapolating for this period the depreciation expense of £0.9 million that we actually recorded in relation to this item for the period March 3, 2020 (the date we completed the Transaction) to April 12, 2020 (the end of our half-year period);
- £3 million in depreciation expense that we believe we would have recorded for the period September 30 to March 2, 2020 in relation to the increase in the fair value of Ei Group's right-of-use assets resulting from acquisition accounting, which, in turn would have resulted in higher depreciation expense, based on extrapolating for this period the depreciation expense of £0.7 million that we actually recorded in relation to this item for the period March 3, 2020 (the date we completed the Transaction) to April 12, 2020 (the end of our half-year period);
- £1 million in depreciation expense that we believe we would have recorded for the period September 30 to March 2, 2020 in relation to assigning fair value to certain of Ei Group's operating leases resulting from acquisition accounting, which had not previously been on its balance sheet and had not been amortized, based on extrapolating for this period the depreciation expense of £0.2 million that we actually recorded in relation to this item for the period March 3, 2020 (the date we completed the Transaction) to April 12, 2020 (the end of our half-year period).

(ii) Reflecting a reversal of £10 million, which is the amount recorded in respect of movement in valuation of the estate and related assets on Ei Group's income statement because, following the Transaction, Ei Group's estate and related assets will no longer be revalued as explained above. Accordingly, going forward, we will not record movements in estate valuation on our income statement.

(iii) Reflecting an estimated net finance credit of £4 million under finance costs, representing:

- £9 million of finance credit that we believe we would have recorded under finance costs for the period September 30 to March 2, 2020 in relation to the increase in the fair value of the Unique Securitized Bonds resulting from acquisition accounting, based on extrapolating for this period the finance credit of £2.3 million that we actually recorded in relation to this item for the period March 3, 2020 (the date we completed the Transaction) to April 12, 2020 (the end of our half-year period); and
- £5 million of finance costs that we believe we would have recorded for the period September 30 to March 2, 2020 in relation to the increase in the fair value of Ei Group's right-of-use assets resulting from acquisition accounting described above, based on extrapolating for this period the finance cost of £1.2 million that we actually recorded in relation to this item for the period March 3, 2020 (the date we completed the Transaction) to April 12, 2020 (the end of our half-year period).

(iv) Reflecting estimated tax credit of £1 million, representing the tax impact of the account adjustments described above.

(b) *Financing adjustments, reflecting an increase of £28 million in finance costs, representing:*

- pro rata portion of interest expense relating to the Notes, the Senior Term Facilities and the Second Lien Facility described above assuming that these debt instruments were in place on September 30, 2019, calculated by dividing the finance costs estimated for them for the 52 weeks ended September 29, 2019 by 2, resulting in aggregate finance costs of approximately £91.3 million;
- half the finance costs we estimate we would have had in relation to the new Revolving Facilities for the 52 weeks ended September 29, 2019, assuming that the new Revolving Facilities were in place on September 30, 2019, calculated by dividing the finance costs estimated for the new Revolving Facilities for the 52 weeks ended September 29, 2019 by 2, resulting in aggregate finance costs of approximately £2.3 million;
- inclusion of an estimated £5.3 million in debt issue costs for the 28 weeks ended April 12, 2020, representing half of the debt issue costs estimated in relation to the New Capital Structure above for 52 weeks ended September 29, 2019;
- elimination of actual finance costs of £42 million for the period between March 3, 2020 and April 12, 2020 relating to the new financing that was put in place in March 2020 in connection with the Transaction, including finance costs relating to the Senior Term Facilities, the Second Lien Facility, the Revolving Facilities and the Senior Bridge Facilities;
- the elimination of £34 million in finance costs relating to the old capital structure of Stonegate Group and Ei Group that was repaid in connection with the Transaction, including (i) Stonegate Group's old senior secured notes and old revolving credit facility and (ii) the Ei Secured Corporate Bonds, Ei Unsecured Corporate Bonds and the Ei Revolving Credit Facility, in each case, as though these debt instruments had been repaid in full September 30, 2019; and
- reversal of £6 million in actual unamortized debt issue costs reflected under finance costs for the 28 weeks ended April 12, 2020, which we would not have recorded had the New Capital Structure been in place on September 30, 2019.

STONEGATE GROUP'S SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

The following tables summarize Stonegate Group's historical financial information as of the dates and for the periods indicated. The summary historical consolidated financial information as of and for the 52 weeks ended September 24, 2017, the 53 weeks ended September 30, 2018 and the 52 weeks ended September 29, 2019, have been derived from Stonegate Group's audited consolidated financial statements included elsewhere in this Offering Memorandum. The summary historical condensed consolidated financial information as of and for the 16 weeks ended January 20, 2019 and January 19, 2020 and the 28 weeks ended April 14, 2019 and April 12, 2020, have been derived from Stonegate Group's unaudited condensed consolidated interim financial statements included elsewhere in this Offering Memorandum. These financial statements have been prepared in accordance with the recognition and measurement requirements of IFRS as adopted by the European Union.

The results of operations and other financial and operating information for prior years are not necessarily indicative of the results to be expected for any future period. This financial information should be read in conjunction with the historical consolidated financial statements and accompanying notes included elsewhere in this Offering Memorandum and discussed in "Presentation of Financial and Other Information," "Summary—Stonegate Group's Summary Historical and Pro Forma Financial and Other Information," "Stonegate Group Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Unaudited Pro Forma Condensed Combined Financial Information."

	For the 52 weeks ended September 24, 2017	For the 53 weeks ended September 30, 2018	For the 52 weeks ended September 29, 2019	For the 16 weeks ended January 20, 2019	For the 16 weeks ended January 19, 2020	For the 28 weeks ended April 14, 2019	For the 28 weeks ended April 12, 2020
(£ in millions)							
Consolidated Historical Income Statement Data							
Revenue	**697**	**774**	**853**	**258**	**279**	**453**	**452**
Other income	—	—	—	—	—	—	9
Operating costs	(616)	(676)	(752)	(239)	(217)	(409)	(411)
Operating profit/(loss) before depreciation, amortization, impairment and loss on disposal of non-current assets	**82**	**98**	**100**	**19**	**62**	**44**	**50**
Depreciation, amortization and impairment	(51)	(61)	(79)	(21)	(37)	(39)	(94)
Profit/(loss) on sale of non-current assets	(5)	(7)	(3)	(0.3)	(0.4)	—	—
Operating profit/(loss)	**25**	**30**	**19**	**(2)**	**24**	**5**	**(44)**
Finance income	0.1	0.1	0.1	0.01	0.001	—	—
Finance costs	(48)	(34)	(44)	(13)	(22)	(24)	(69)
Profit/(loss) before taxation	**(22)**	**(4)**	**(25)**	**(15)**	**2**	**(19)**	**(113)**
UK income tax credit/ (charge)	(2)	(3)	1	(0.6)	(0.01)	(1)	(20)
Profit/(loss) for period	**(24)**	**(8)**	**(24)**	**(16)**	**2**	**(20)**	**(133)**

	As of September 24, 2017	As of September 30, 2018	As of September 29, 2019	As of January 19, 2020	As of April 12, 2020
(£ in millions)					
Selected Consolidated Historical Balance Sheet Data					
Non-current assets	716	782	853	1,386	4,934
Property, plant and equipment	*521*	*531*	*550*	*1,233*	*4,546*
Investment property	—	—	—	—	*130*
Other intangibles	*80*	*125*	*154*	*4*	*5*
Goodwill	*114*	*125*	*142*	*142*	*235*
Current assets	60	70	74	64	425
Cash and cash equivalents	*17*	*26*	*22*	*16*	*319*
Non-current assets held for sale	—	—	—	—	*44*
Current liabilities	(148)	(224)	(157)	(175)	(380)
Borrowings	*(21)*	*(104)*	*(17)*	*(40)*	*(99)*
Non-current liabilities	(622)	(626)	(781)	(1,283)	(4,112)
Borrowings	*(590)*	*(591)*	*(739)*	*(1,248)*	*(3,873)*
Total funds/(deficit)	7	2	(11)	(9)	911

(£ in millions)	For the 52 weeks ended September 24, 2017	For the 53 weeks ended September 30, 2018	For the 52 weeks ended September 29, 2019	For the 16 weeks ended January 20, 2019	For the 16 weeks ended January 19, 2020	For the 28 weeks ended April 14, 2019	For the 28 weeks ended April 12, 2020
Selected Consolidated Cash Flow Statement Data							
Net cash flow from operating activities[(a)]	47	53	65	15	45	52	31
Net cash flow from investing activities[(a)]	(138)	(125)	(141)	(48)	(24)	(106)	(1,151)
Net cash flow from financing activities	65	83	69	12	(19)	48	1,405
Closing cash and cash equivalents	4	16	9	(5)	10	10	294

(a) We have restated net cash flow from operating activities and net cash flow from investing activities for the 28 weeks ended April 14, 2019 to reclassify a loan to Stonegate Holdings, the indirect parent company of the Parent, from net cash flow from operating activities to net cash flow from investing activities. The impact of the adjustment for the 28 weeks ended April 14, 2019 is an increase in net cash flow from operating activities (due to a decrease in "Changes in receivables") by £6 million and an increase in net cash outflow from investing activities ("Loan made to ultimate parent company") by £6 million. We expect to make the same adjustment for the 52 weeks ended September 29, 2019 when we prepare our annual report and consolidated financial statements as of and for the 52 weeks ended September 27, 2020 and, accordingly, we have reflected that adjustment in the table above.

EI GROUP'S SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

The following tables summarize Ei Group's historical consolidated financial information as of the dates and for the periods indicated. The summary historical consolidated financial information as of and for the year ended September 30, 2017, September 30, 2018 and September 30, 2019, have been derived from Ei Group's audited consolidated financial statements included elsewhere in this Offering Memorandum.

The summary historical condensed consolidated financial information as of and for the 13 weeks ended December 29, 2018 and December 28, 2019 have been derived from Ei Group's condensed consolidated interim financial statements included elsewhere in this Offering Memorandum, which have been prepared on a basis consistent with Ei Group's annual audited consolidated financial statements. These financial statements have been prepared in accordance with the recognition and measurement requirements of IFRS as adopted by the European Union.

The results of operations and other financial and operating information for prior years are not necessarily indicative of the results to be expected for any future period. This financial information should be read in conjunction with the historical consolidated financial statements and accompanying notes included elsewhere in this Offering Memorandum and discussed in "Presentation of Financial and Other Information," "Summary—Ei Group's Summary Historical Financial and Other Information" and "Ei Group Management's Discussion and Analysis of Financial Condition and Results of Operations."

	For the year ended September 30, 2017	For the year ended September 30, 2018	For the year ended September 30, 2019	For the 13 weeks ended December 29, 2018	For the 13 weeks ended December 28, 2019
(£ in millions)					
Consolidated Historical Income Statement Data					
Revenue	**648**	**695**	**724**	**185**	**185**
Operating costs before depreciation and amortization	(370)	(413)	(456)	(111)	(112)
EBITDA	**278**	**282**	**268**	**74**	**73**
Depreciation and amortization	(17)	(19)	(21)	(5)	(8)
Operating Profit	**261**	**263**	**247**	**69**	**65**
Profit on sale of controlling interest in subsidiary undertaking	—	1	—	—	—
(Loss)/Profit on sale of property	10	2	(7)	—	1
Goodwill allocated to disposals	(10)	(8)	(35)	(1)	—
Net loss on sale of property	—	(6)	(42)	(1)	1
Movement in valuation of the estate and related assets	(24)	(19)	(20)	(3)	(5)
Goodwill impairment	—	—	(232)	—	—
Finance costs	(179)	(152)	(152)	(36)	(36)
Profit/(loss) before tax	**58**	**87**	**(199)**	**29**	**25**
Taxation	(4)	(15)	(10)	(5)	(5)
Profit/(loss) after tax attributable to members of the parent company	**54**	**72**	**(209)**	**24**	**20**

	As of September 30, 2017	As of September 30, 2018	As of September 30, 2019	As of December 28, 2019
(£ in millions)				
Selected Consolidated Historical Balance Sheet Data				
Total non-current assets	3,915	3,912	3,315	3,500
Intangible assets: operating lease premium	*9*	*9*	*8*	—
Property, plant and equipment	*3,322*	*3,228*	*3,185*	*3,344*
Investment Property	*270*	*368*	*81*	*107*
Total current assets	206	219	210	223
Cash	*151*	*158*	*156*	*156*
Non-current assets held for sale	25	13	15	39
Total assets	4,146	4,144	3,540	3,762
Total current liabilities	(283)	(405)	(222)	(205)
Total non-current liabilities	(2,360)	(2,185)	(2,022)	(2,294)
Total liabilities	**(2,643)**	**(2,590)**	**(2,244)**	**(2,499)**
Net assets	**1,503**	**1,554**	**1,296**	**1,263**
Total equity	**1,503**	**1,554**	**1,296**	**1,263**

(£ in millions)	For the year ended September 30, 2017	For the year ended September 30, 2018	For the year ended September 30, 2019	For the 13 weeks ended December 29, 2018	For the 13 weeks ended December 28, 2019
Selected Consolidated Cash Flow Statement Data					
Net cash flow from operating activities	261	271	247	49	36
Net cash flow from investing activities	20	(15)	297	(16)	(19)
Net cash flow from financing activities	(275)	(249)	(546)	(26)	(17)
Net increase/(decrease) in cash	**6**	**7**	**(2)**	**7**	**—**
Cash at the start of the period	145	151	158	158	156
Cash at the end of the period	**151**	**158**	**156**	**165**	**156**

STONEGATE GROUP MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of the financial condition and results of operations of Stonegate Group in the periods set forth below. Accordingly, all references to "we," "us" or "our" in respect of historical consolidated financial information in this discussion are to Stonegate Group on a consolidated basis. Stonegate Group's historical consolidated financial information includes the financial information of Ei Group from and including March 3, 2020, the date on which the Transaction was completed. For the financial periods preceding March 3, 2020, Stonegate Group's historical consolidated financial information does not include the financial information of Ei Group, which are discussed elsewhere in this Offering Memorandum. See "Ei Group Management's Discussion and Analysis of Financial Condition and Results of Operations." See also "Presentation of Financial and Other Information."

You should read this discussion in conjunction with our historical consolidated financial statements included elsewhere in this Offering Memorandum, as well as the "Stonegate Group's Selected Historical Consolidated Financial Information." The following presentation and analysis contains forward-looking statements that involve risks and uncertainties. For the reasons explained under "Forward-Looking Statements" and "Risk Factors" and elsewhere in this Offering Memorandum, our future results may differ materially from those expected or implied in these forward looking statements.

Some of the measures used in this discussion and analysis are not measurements of financial performance under IFRS and have important limitations as analytical tools. You should not consider them in isolation or as substitutes for analysis of our results as reported under IFRS. See "Certain Definitions" and "Presentation of Financial and Other Information."

Overview

On March 3, 2020, we completed the Transaction and Ei Group was combined with Stonegate Group. Following the Transaction, on a combined basis, we are the largest pub company in the United Kingdom based on the number of sites (4,749 sites on a combined basis as of April 12, 2020).

The combined group has strong real estate backing based on an estate of predominantly freehold properties (approximately 81% by number of sites and approximately 88% by value on a combined basis as of September 30, 2019) and a combined property asset value of approximately £4.1 billion as of September 30, 2019 (Stonegate Group: £798 million; Ei Group: £3.3 billion). The combined group is well-distributed through the United Kingdom, with a majority of pubs located at high street locations across London and the southeast region of the United Kingdom, and has diverse operating models, formats and brands.

Revenue of the combined group is generated from a variety of sources, including drink and food sales (87.6% of pro forma revenue for the 52 weeks ended September 29, 2019) and rental income (8.6% of pro forma revenue for the 52 weeks ended September 29, 2019). We believe that our diverse and agile business that delivers across operating models, formats and brands, led by Stonegate Group's experienced and reputed management team, will be instrumental in driving revenue growth in the future. Stonegate Group's revenue, operating profit and loss after taxation on a historical basis for the 52 weeks ended September 29, 2019 were £853 million, £19 million and £24 million, respectively, and Ei Group's revenue, operating profit and loss after taxation on a historical basis for the year ended September 30, 2019 were £724 million, £247 million and £209 million, respectively. On a combined basis, Stonegate Group's and Ei Group's revenue for the 52 weeks ended January 19, 2020 and December 28, 2019, respectively, was £1,598 million. Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS 16) on a combined basis for the 52 weeks ended January 19, 2020 would have been £494 million.

We had strong strategic reasons to combine Stonegate Group and Ei Group. The Transaction adds Ei Group's strong and stable publican partnership business to Stonegate Group's leading managed pub business. It provides a significant pipeline of publican partnership pubs that we can convert into managed pubs where we identify value accretive opportunities. The scale of the combined operations presents numerous opportunities, including opportunities to realize significant cost savings through integrating operating models and applying best practices across Stonegate Group and Ei Group. This combination also gives us the ability to take advantage of value arbitrage opportunities that may not have been fully exploited by Ei Group before.

The global outbreak of the COVID-19 pandemic has had a significant effect on our industry and our business. It resulted in the UK government taking unprecedented steps to implement a national lockdown, restricting social gatherings and mandating closure of non-essential businesses, in each case, leading to business slowdowns and shutdowns. Pursuant to a directive of the UK government, our pubs closed for business on March 20, 2020 as part of national efforts to curb the spread of the disease. Our pubs reopened for business on July 4, 2020, and, as of July 19, 2020, we had reopened 77% of our managed pubs subject to government guidance. Late night formats where dancing is a key part of the offer, pubs aimed at the student demographic and most of our Be At One pubs remain closed during this initial phase of reopening. As of July 19, 2020, we believe that our publicans had reopened an estimated 89% of the pubs in our publican partnership estate. While we have seen certain positive early results based on our first week of trading after reopening, the impact of COVID-19 on our industry and our business remains uncertain and will ultimately depend on a number of factors that are beyond our control and cannot be accurately predicted at this time.

Ei Group

Ei Group began trading operations in 1991 with the acquisition of 368 pubs from Bass plc. Prior to the Transaction, Ei Group was the largest pub company in the United Kingdom based on number of sites with 4,028 sites across England and Wales as of December 28, 2019. The Ei Group Property Asset Value was £3,289 million as of September 30, 2019. Its estate consists of high-quality assets, approximately 95% of which, based on value, were freehold properties and approximately 25% of which were located in town centers as of September 30, 2019. Ei Group's revenue, operating profit and loss after taxation on a historical basis for the year ended September 30, 2019 were £724 million, £247 million and £209 million, respectively. Its revenue for the 52 weeks ended December 28, 2019 was £724 million and the Ei Group Underlying EBITDA (excluding the impact of IFRS 16) for the 52 weeks ended December 28, 2019 was £263 million (adjusted for Ei Group's disposal of 355 commercial properties and 124 assets in the ordinary course in the 52 weeks ended December 28, 2019 described in this Offering Memorandum).

Ei Group operated three main business segments: publican partnerships, managed pubs and commercial properties.

- *Ei Group Publican Partnerships*: Under this segment, Ei Group operated in the leased and tenanted sector through 3,351 pubs, which accounted for approximately 83% of its estate (based on the number of pubs) as of December 28, 2019.
- *Ei Group Managed Pubs*: Under this segment, Ei Group operated two divisions, its Managed Operations division and its Managed Investments division. Its Managed Operations division consisted of 62 pubs as of December 28, 2019 operating under the Bermondsey Pub Company format (covering fully-managed pubs operating nationally with a drink-led retail offering) and 357 pubs as of December 28, 2019 under the Craft Union Pub Company format (covering generally smaller operations run by self-employed operators with a sports, entertainment and drink-led retail offering but no food offering). Its Managed Investments division consisted of 75 pubs as of December 28, 2019, operated as joint ventures with experienced retail partners reflecting a broad mix of operating styles.
- *Ei Group Commercial Properties*: Under this segment, Ei Group had a portfolio of 147 assets as of December 28, 2019, which it operated on a 'free-of-tie' basis. The assets in the Ei Group Commercial Properties segment contributed to the diversification of Ei Group's earnings profile and provided additional recurring rental income. For further information on Ei Group's business model, see "Ei Group's Business."

Stonegate Group

Stonegate Group began its trading operations in November 2010 with the acquisition of 333 pubs from Mitchells & Butlers. Prior to the Transaction, Stonegate Group was the fourth largest managed pub company in the United Kingdom based on number of sites, trading from 760 sites across the United Kingdom as of January 19, 2020. Stonegate Group Property Asset Value was estimated to be £798 million as of September 19, 2019 and its estate included 251 freehold properties as of that date. Stonegate Group's revenue, operating profit and loss after taxation on a historical basis for the 52 weeks ended September 29, 2019 were £853 million, £19 million and £24 million, respectively. Its revenue for the 52 weeks ended January 19, 2020 was £874 million and Stonegate Group Adjusted EBITDA (excluding the impact of IFRS 16) for the 52 weeks ended January 19, 2020 was £141 million.

Stonegate Group's business is highly diversified with a variety of formats. Stonegate Group classifies its pubs as either "branded" or "unbranded", based on each pub's concept and offering. Its branded pubs consist of Be at One, Slug and Lettuce and Venues brands, while its unbranded pubs consist of Proper Pubs, Town Pub and Kitchen, Common Rooms, Classic Inns pubs and City Taverns. By operating its business through a multi-format strategy, Stonegate Group has successfully positioned itself to attract a wide customer demographic while being able to cater to various consumer trends. This diversity in formats and offerings allows it to exist in multiple sites across city and town centers without adversely affecting sales at its pubs in adjacent locations, as opposed to single format operators.

Combined Group

We believe that the Transaction results in a more resilient business for the combined group due to the combined group's diversified operating models comprising publican partnerships, managed pubs and commercial properties, significant asset backing, strong purchasing power based on larger scale, all of which is complemented by Stonegate Group's ability to deliver a market-leading operating performance across the Ei Group's managed estate and publican partnership sites with the potential for conversion to Stonegate Group's managed formats.

The combined group has three main segments:

- Publican Partnerships: Publican partnerships form a core operating segment of the combined group, made up of pubs owned or leased by the combined group and operated by publicans as their own businesses. A key feature of the publican partnerships operating model is "tie" arrangements, whereby most publicans have agreed under their lease or tenancy agreements to purchase beer and other beverages through us. We intend to continue to maintain these tie arrangements which, along with rental income, provide resilient and recurring earnings.
- Managed Pubs: Managed pubs are largely managed and operated by the combined group and derive their income predominantly from the retail sale of food and drinks, accommodation and gaming machines. The exception being pubs operated under the Craft Union Pub Company format, which are generally smaller operations managed and operated by self-employed operators under our guidelines for managed pub operations, with a sports, entertainment and drink-led retail offering but no food offering. Our managed pubs are strategically positioned to cater to different customer demographics and price points. Stonegate Group's managed estate forms the majority of the combined group's portfolio of managed pubs.
- Commercial Properties: Commercial properties consist of free-of-tie pubs and non-pub properties operated and managed by third-party leaseholders. Commercial properties derive their income predominantly from rental payments and contribute to the diversification of earnings by providing another source of recurring rental income. From time to time, we expect to be able to monetize the value created in commercial properties at attractive multiples.

Factors Affecting the Comparability of Our Results of Operations

Impact of COVID-19

On March 20, 2020, the UK government directed the closure of all pubs and bars in the United Kingdom. Pursuant to this directive, our pubs closed for business on March 20, 2020. Our pubs reopened for business on July 4, 2020 and, as of July 19, 2020, we had reopened 77% of our managed pubs and we believe that our publicans had reopened an estimated 89% of the pubs in our publican partnership estate. During the period from March 20, 2020 to July 4, 2020, we recorded no revenue other than nominal rent revenue. We continue to provide rent concessions and other support to our publicans, which may also result in lower revenues compared to prior periods. As a result of this period of closure and the measures we continue to take to combat the impact of COVID-19, our financial results for the 28 weeks ended April 12, 2020 have been materially impacted. In addition, we would expect this period of closure, or if there are future periods of closure mandated by the UK government, to have a material impact on our financial results for the 52 weeks ended September 27, 2020. Accordingly, our financial condition and results of operation will differ in respect of the current year and for future periods when compared to the historical financial condition and results of operation presented in this discussion.

In response to the closure of our pubs on March 20, 2020, we adopted swift measures to significantly reduce cash outflows by reducing our operating cost and implementing cash control measures, with the aim of maximizing our liquidity position. For a discussion of the cost control measures that we implemented in response to COVID-19, our strategic options to manage cash outflows and preserve and build liquidity going forward and our estimate of reopening costs and the expected economics upon reopening, see "Summary—Recent Developments—Impact of COVID-19."

The impact of COVID-19 on our business remains uncertain and will ultimately depend on a number of factors that cannot be accurately predicted at this time, including, but not limited to, the duration (including the extent of any resurgence in the future) and severity of the COVID-19 pandemic, the timing of and manner in which containment efforts are reduced or lifted, the timing and ability of vaccination and other treatments to combat COVID-19, the duration and magnitude of its impact on unemployment rates and consumer discretionary spending, the length of time it takes for demand and pricing to return to pre-COVID-19 levels and for normal economic and operating conditions to resume, which are all beyond our knowledge and control. Moreover, there are no comparable recent events that provide us with guidance. For these reasons, we cannot reasonably estimate the impact of COVID-19 on our business with any certainty nor can we provide any assurance that COVID-19 will not continue to have a material adverse effect on our business, results of operation, financial condition, cash flows and prospects.

Financial Periods

Our historical consolidated financial statements have been drawn up for a whole number of weeks in accordance with common practice in the pub industry. Financial years are therefore generally 52 weeks long, with the occasional 53-week period to maintain our year-end to the Sunday nearest to the end of September each year, which for 2017, 2018 and 2019, financial year periods were September 24, 2017, September 30, 2018 and September 29, 2019, respectively. Our financial year accounting period for 2018 was 53 weeks, whereas for 2017 and 2019, it was 52 weeks. Consequently, the results for the 53 weeks ended September 30, 2018 were positively impacted by an additional week's trading relative to the 52 weeks ended September 24, 2017 and the 52 weeks ended September 29, 2019.

In addition, the comparability of our interim financial results is impacted by the varying lengths of our trading quarters. Our first trading quarter of each 52-week financial year is made up of 16 weeks, while the remaining three trading quarters of our 52-week financial year are each made up of 12 weeks. By contrast, the last trading quarter of our 53-week financial year, such as 2018, is made up of 13 weeks. For that reason, our first trading quarter may not be comparable to any of our other three trading quarters as they contain a different number of weeks. Similarly, our last trading quarter for the 53 weeks ended September 30, 2018, may not be comparable to any of our other three trading quarters.

Our historical consolidated financial statements for each of the periods presented in this Offering Memorandum reflect the trading of certain pubs that we acquired, disposed of and closed during the relevant period. Our financial results as of and for the 28 weeks ended April 12, 2020 include, and the succeeding financial periods will include, the results of Ei Group from and including March 3, 2020, the date on which we completed the Transaction. A discussion of our Unaudited Pro Forma Condensed Combined Financial Information that gives effect to the Transaction can be found under "Unaudited Pro Forma Condensed Combined Financial Information." In addition, our financial results as of and for the 52 weeks ended September 24, 2017, and the succeeding financial periods, include the results of the Intertain pubs from December 7, 2016, the date on which we acquired Intertain, as well as the results of the JDW pubs, the Large Bars pubs, the Punch Taverns pubs and the Sports Bar & Grill pubs from their respective dates of acquisition. Our financial results as of and for the 53 weeks ended September 30, 2018, and the succeeding financial periods, include the results of Be At One from July 23, 2018, the date on which we acquired Be At One, as well as the results of four pubs acquired pursuant to the First Novus Acquisitions, from the respective dates of each of their acquisition. Our financial results as of and for the 52 weeks ended September 29, 2019, and the succeeding financial periods, include the results of Fever Bars from January 22, 2019, the date on which we acquired Fever Bars, as well as the results of 11 pubs acquired pursuant to the First Novus Acquisitions and six pubs acquired pursuant to the Second Novus Acquisition, each from their respective dates of acquisition. Accordingly, because of the changes in the number of pubs in operation in, and during, any given year, our operating results for each of the periods presented are not directly comparable.

For further information on the impact of our acquisitions on our results of operations, see "—Acquisitions" below.

Changes in Accounting Policy

IFRS 16

IFRS 16 (*Leases)* was published on January 13, 2016 by the International Accounting Standard Board. It became effective on January 1, 2019 and applies to the first full financial year commencing on or after that date. Stonegate Group's first full financial year following the effective date of IFRS 16 began

September 30, 2019. Accordingly, we have applied IFRS 16 for the financial periods beginning September 30, 2019. IFRS 16 introduces a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

Pursuant to the adoption of IFRS 16, as of September 30, 2019, we recognized a right of use lease asset of £692 million (after adjustments for intangible assets, onerous lease provisions, lease prepayments and accrued lease expenses as of September 29, 2019) and a corresponding lease liability of £546 million. Upon the adoption of IFRS 16, operating lease intangibles of £150 million, lease incentives of £5 million, rent accruals of £4 million and lease prepayments of £11 million that we had previously recognized in respect of operating leases will not be recognized, and the relevant amounts will be factored into the measurement of the right of use asset. As of January 19, 2020, we recognized a right of use asset of £677 million and a corresponding lease liability of £542 million. As of April 12, 2020, we recognized a right of use asset of £953 million and a corresponding lease liability of £778 million. Pursuant to the adoption of IFRS 16, we recognize lease liabilities under borrowings in our consolidated balance sheet.

Under IFRS 16, right of use assets is tested for impairment in accordance with IAS 36, replacing the previous requirement to recognize a provision for onerous lease contracts. However, as of the transition date, we relied on our assessment of onerous lease contracts under IAS 37 instead of performing an impairment review, and the right of use asset was adjusted for the onerous lease provision immediately before the transition date. The onerous lease provision as of September 29, 2019 was £10 million and we recognized an amount of £6 million as adjustment to the right of use assets. In addition, we recognized an amount of £1 million in opening retained earnings, which represents the excess onerous lease provision as a result of different discount rates being used in respect of the onerous lease provision compared to lease liability under IFRS 16 and £1 million was utilized towards overhead costs of onerous lease sites. The remaining provision of £2 million was held as a provision as it relates to non-rental elements of onerous lease. No significant impact is expected to our financial leases.

Adjusted only for the implementation of IFRS 16, for the 52 weeks ending September 27, 2020, our Stonegate Group Pre-Adjusted EBITDA is expected to improve as the depreciation expense pursuant to adoption of IFRS 16 is expected to be lower than the operating lease charge recorded pursuant to IAS 17. However, net finance costs are expected to be higher, such that our net profit before tax, as well as our net profit after tax, are expected to be materially lower compared to the previous IAS 17 reporting basis. We have determined that there will be no net cash flow impact on adoption of IFRS 16. However, the classification of cash flows will be affected as operating lease payments under IAS 17 are presented as operating cash flows, whereas under IFRS 16, the lease payments will be split between a principal portion and an interest portion such that they will be presented as financing and operating cash flows respectively. The change in presentation is expected to result in an improvement to operating cash flows, offset by a corresponding decline in cash flow from financing activities.

As a result of the implementation of IFRS 16, the comparability of our results of operations presented in our financial statements commencing with the financial year 2020 will be limited relative to our historical financial statements for prior periods. For more information on the impact of IFRS 16 on our financial statements, see Note 1 of each of our consolidated interim financial statements as of and for the 28 weeks ended April 12, 2020 and 16 weeks ended January 19, 2020 and our consolidated financial statement as of and for the 52 weeks ended September 29, 2019, included elsewhere in this Offering Memorandum.

Segment Reporting

Following the completion of the Transaction and beginning the 28 weeks ended April 12, 2020, we have introduced three reportable segments. These are as follows:

- Publican Partnerships, covering rental income and revenue from supply of drinks and gaming machines from our Publican Partnerships;
- Commercial Properties, covering rental income from our Commercial Properties; and
- Managed, covering revenue from the sale of food, drink, accommodation and gaming machine income from our Managed Pubs and Managed Investments.

Note 2 of our financial statements as of and for the 28 weeks ended April 12, 2020 included elsewhere in this Offering Memorandum presents revenue, underlying EBITDA and certain other metrics by reporting segment. We eliminate intersegment revenues and costs upon consolidation and the segmental note is presented net of these eliminations.

All of our revenue is generated in the United Kingdom and is not further segmented based on location. Therefore, no geographical segmental analysis has been provided.

Key Factors Affecting Our Results of Operations

Acquisitions

In each of the periods presented in this Offering Memorandum, we made a number of acquisitions which have affected our results of operations. We proactively manage the composition of our estate and pursue a strategy of selective and opportunistic acquisition whereby we seek to acquire high-quality pubs that complement our current offering. Our significant acquisitions during the periods under discussion below are:

- *Punch Taverns (asset acquisition accounted for as an asset deal):* On October 10, 2016, October 31, 2016, July 24, 2017 and September 18, 2017, we acquired in total six leasehold pubs from Punch Taverns;
- *Intertain (share acquisition accounted for as a business combination):* In December 2016, we acquired Intertain, which at the time owned and operated 30 pubs;
- *Large Bars (share acquisition accounted for as a business combination):* On April 21, 2017, we acquired three pubs pursuant to the acquisition of Large Bars;
- *Faucet Inn (asset acquisition accounted for as an asset deal):* On February 2, 2017, we agreed to acquire three pubs and certain other assets from the Faucet Inn Sellers and have since completed the acquisition of one freehold pub on February 16, 2017 and the acquisition of the two remaining leasehold pubs on May 22, 2017;
- *2017 Ei Asset Acquisitions (asset acquisition accounted for as an asset deal):* On June 26, 2017, July 17, 2017, August 22, 2017 and November 7, 2017, we acquired a total of four pubs from Ei Group;
- *JDW (asset acquisition accounted for as an asset deal):* On September 5, 2016, we agreed to acquire ten leasehold pubs from JDW and have since completed the acquisition of these pubs. Additionally, we acquired a further three leasehold pubs on April 26, 2017, July 26, 2017 and September 6, 2017, respectively;
- *Sports Bar & Grill (share acquisition accounted for as a business combination):* On September 13, 2017 we acquired five leasehold pubs pursuant to the acquisition of Sports Bar & Grill;
- *Be At One (share acquisition accounted for as a business combination):* On July 23, 2018, we acquired 33 premium specialist cocktail bars (and a lease of an office premises), pursuant to the Be At One Acquisition;
- *First Novus Acquisitions (asset acquisition accounted for as an asset deal):* On July 22, 2018, we agreed to acquire 15 pubs pursuant to the Fist Novus Acquisitions, of which we had completed four by September 30, 2018. We completed the acquisition of the last of the remaining eleven pubs on December 10, 2018;
- *Fever Bars (share acquisition accounted for as a business combination):* On January 22, 2019, we acquired 32 pubs pursuant to the Fever Bars Acquisition;
- *Second Novus Acquisitions (asset acquisition accounted for as an asset deal):* On January 22, 2019, we agreed to acquire six pubs pursuant to the Second Novus Acquisitions and we completed the acquisition of the last of these pubs on April 8, 2019; and
- *Ei Group (share acquisition accounted for as a business combination):* On March 3, 2020, we completed the Transaction and added 4,008 pubs of Ei Group to our estate.

Disposals and Closures

From time to time, we dispose of and close down underperforming pubs to streamline our offering and focus on our profitable operations.

For the 52 weeks ended September 24, 2017, the 53 weeks ended September 30, 2018, the 52 weeks ended September 29, 2019, and the 28 weeks ended April 12, 2020, we disposed of 15 pubs, 24 pubs, 11 pubs and 23 pubs, respectively, to third parties, and closed down nil pubs, two pubs, nil pubs and one pub, respectively, in each of these periods. As agreed with the CMA in connection with the Transaction, we have undertaken to dispose of 42 sites to third parties, including 10 sites from Stonegate Group's estate and 32 sites from Ei Group's estate. We intend to complete the disposal of these sites by November 2020.

Over the nine years since we began our trading operations with the acquisition of pubs from Mitchells & Butlers, we have grown our estate from 333 sites as of November 20, 2010 to 763 sites as of September 29, 2019. Our revenue has grown from £697 million for the 52 weeks ended September 24, 2017 to £853 million for the 52 weeks ended September 29, 2019 mainly due to the trading impact of these acquisitions. As of April 12, 2020, our estate had 4,749 sites, including those acquired as part of the Transaction, and our revenue for the 28 weeks ended April 12, 2020 was £452 million.

The following table presents the numbers of pubs acquired, disposed of and closed down, as well as the total number of our sites, for the periods indicated:

	For the 52 weeks ended September 24, 2017	For the 53 weeks ended September 30, 2018	For the 52 weeks ended September 29, 2019	For the 16 weeks ended January 19, 2020	For the 28 weeks ended April 12, 2020
Acquisitions of pubs	63	42	49	—	4,009(3)
Disposals of pubs	(12)(1)	(18)(2)	(11)	(2)	(23)
Closure of pubs	—	(2)	—	(1)	(17)
Total sites	**703**	**725**	**763**	**760**	**4,732(4)**

(1) Excludes the disposal of three non-operating sites that were closed in prior periods and disposed of during the 52 weeks ended September 24, 2017.

(2) Excludes the disposal of three non-operating sites that were closed in prior periods and disposed of during the 53 weeks ended September 30, 2018.

(3) Includes 4,008 pubs of Ei Group added to our estate on March 3, 2020.

(4) Since April 12, 2020, we have disposed of two sites, acquired nil sites, and other than the government-mandated closure of our pubs due to the COVID-19 pandemic, have not closed any managed pubs since April 12, 2020.

During the 52 weeks ended September 29, 2019, we wrote off tangible fixed assets in an amount of £2 million. We categorized these write-offs as profit/(loss) on sale of non-current assets, and they primarily relate to write-offs of certain tangible assets at certain sites that are no longer in use due to capital investments made at these sites.

You should also consider the following factors in analyzing our financial condition and results of operations:

Focused Investment Program and Continued Operating Efficiency Improvements

We have a focused investment program and take a disciplined approach to investment appraisal. We identify priority investments through biannual estate reviews, and approve each project at multiple levels, before it can finally be approved at our senior management meetings. Proposed schemes are reviewed at the Managing Director executive committee chaired by our managing directors and the operations board chaired by our CEO before being authorized at our senior management meetings chaired by our chairman. Since we began trading, and through January 19, 2020, we have refurbished approximately 621 Stonegate Group pubs. We continue to invest in our estate, and for the 156-week period ended January 19, 2020, our Stonegate Group Return on Investment was 35.9%. Our investments made over the last three years are also presented at each senior management meeting for post-investment review. As of January 19, 2020, there were 124 Stonegate Group pubs that have not been invested in while we have been under TDR Capital's ownership, and we believe this provides us with a strong pipeline of investment and growth opportunities. In addition, we plan to convert a number of leased and tenanted pubs from Ei Group's estate to managed pubs. Ei Group's leased and tenanted estate provides a large unmined pipeline for conversions with approximately 82% of its leased and tenanted estate becoming available for conversion within the next five years.

We have integrated the pubs we acquired through our acquisition of Large Bars, Intertain, JDW, the Faucet Inn Sellers, Punch Taverns, 2017 Ei Asset Acquisitions, Sports Bar & Grill and the additional site we acquired on May 2, 2017, into, among others, our Venues, Proper Pubs, Common Rooms and Town Pub and Kitchen formats. In addition, we have integrated the pubs acquired pursuant to the First Novus Acquisitions and the Second Novus Acquisitions into, among others, our Slug & Lettuce, Be At One, City Taverns, Venues and Town Pub and Kitchen formats and in addition, we are now operating the pubs acquired pursuant to the Fever Bars Acquisition as part of our Venues format. In relation to the Transaction, we believe that a significant opportunity for value creation exists in the Craft Union community pubs model (quasi-managed/franchised platform). The key benefit of this model is that these pubs are run by self-employed operators who receive a fixed percentage of revenue generated in these pubs, thereby making site earnings less volatile. This is particularly beneficial for sites with lower revenues.

Ei Group was successful in applying this model. We expect to drive further value by utilizing our knowledge and capabilities to support and improve the existing Craft Union sites and by potentially increasing the number of sites that are run based on this model. We believe that our ability to successfully identify ideal trading formats for the pubs we acquire, and to integrate and/or convert these pubs into those formats, has allowed us to consistently achieve like for like revenue growth.

In light of the COVID-19 pandemic and our efforts to manage cash outflows and preserve and build liquidity, our ability to make investments in our estate, including investments made to convert leased and tenanted pubs from Ei Group's estate to our managed formats or to the Craft Union format, may be limited for some time. We currently intend to keep discretionary spending at a minimum, and until our cash reserves recover to desirable levels, we plan to make opportunistic capital expenditure through a careful and considered approach.

Changing Consumer Preferences and Prevailing Macroeconomic Conditions

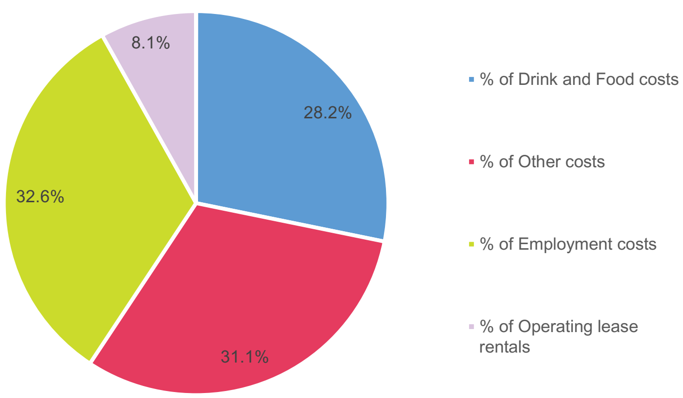
Our financial results are impacted by changes in consumer habits and preferences within the United Kingdom. Examples of changes in consumer habits that have favorably impacted our financial performance include long-term growth in the eating-out market, an increase in on-trade consumption of spirits and wines at the expense of beer, focus on overall customer experience and an increase in popularity of pubs attracting women and families with children. On the other hand, if consumers' spending patterns in respect to alcohol evolve in such a way that they purchase a higher proportion of their alcoholic drinks at supermarkets, off-licenses and other off-trade channels than has been the case in the past, particularly in light of consumer behavior during the COVID-19 pandemic, where more consumers than usual turned to these alternative sources to buy alcoholic drinks, we may experience a decline in our sales. See "Industry." In addition, in light of the COVID-19 pandemic, our customers' ability or desire to visit pubs may remain weak for a significant length of time, which may also result in a decline in our sales. Changes in consumer preferences and trends may continue to impact our financial results, particularly if we are unable to anticipate, identify and respond to such changes by evolving our brands and offering adequately and in a timely fashion.

Adverse changes in the general macroeconomic environment can also have an impact on our sales. The outlook for the UK economy is currently subject to significant uncertainty, particularly in light of the impact of the ongoing COVID-19 pandemic, which may lead the United Kingdom into a prolonged period of economic downturn, recession or depression. Our business is also subject to macroeconomic factors such as interest rates, disposable income, unemployment rates, taxes, consumer credit levels and house prices, which could all affect the level of consumer confidence and, in turn, impact the level of consumer spending on eating and drinking out and other leisure activities.

Operating Costs Control

Our cost structure mainly comprises drink and food costs, employment costs, operating lease rentals and other costs. We believe that much of our cost structure is flexible and can be re-evaluated and restructured as need arises. Employment costs and drink and food costs are significant elements of our operating costs and accounted for 32.6% and 28.2%, respectively, of our operating costs for the 52 weeks ended September 29, 2019.

The chart below illustrates the breakdown of our operating costs for the 52 weeks ended September 29, 2019:



Employment costs constituted 32.6% of our operating costs for the 52 weeks ended September 29, 2019, of which 15.0% constituted the cost of wages (which are a variable cost to us) and the remaining 17.6% constituted the cost of salaries (which are a fixed cost to us). Minimum wage legislation largely establishes our base compensation levels. In April 2016, the UK government announced the introduction of a National Living Wage, which replaced the national minimum wage for all working people aged 25 and over in the United Kingdom. The National Minimum Wage remained in place for all working people under the age of 25 who are at least school leaving age in the United Kingdom. In April 2019, the National Minimum Wage for people from school leaving age in the United Kingdom to 18 was increased to £4.35 per hour. At the same time, the National Minimum Wage for people aged 18 to 20 and for people aged 21 to 24 was increased to £6.15 per hour and £7.70 per hour, respectively, while the National Living Wage for people aged 25 and over was increased to £8.21. In April 2020, the National Minimum Wage for people from school leaving age in the United Kingdom to 18 was increased to £4.55 per hour. At the same time, the National Minimum Wage for people aged 18 to 20 and for people aged 21 to 24 was increased to £6.45 per hour and £8.20 per hour, respectively, while the National Living Wage for people aged 25 and over was to increased to £8.72 per hour.

Increases in employment costs, whether due to market conditions or increases in mandatory minimum wages or benefits, can have a material impact on our results of operations. Increases in employee turnover can also result in increased recruiting expenses and reduced efficiency through lost management time. Employment costs includes within it labor costs described below.

In addition, for the 52 weeks ended September 24, 2017, the 53 weeks ended September 30, 2018, the 52 weeks ended September 29, 2019 and the 16 weeks ended January 29, 2020, our labor costs, which represents our aggregate site labor costs only (and is a financial metric commonly used in our industry) were 24.7%, 24.4%, 23.8% and 23.4%, respectively, of revenue. We believe that we have the ability to manage our fixed and variable labor costs at different levels of sales volumes if it is required.

Our results are also affected by the cost of supplies purchased from third parties. While a majority of our supply chain is UK based, we also seek to capitalize on opportunities to mitigate, where possible, foreign supply chain costs by switching to less expensive geographies. We purchase beer and other drink products from various suppliers. Our six leading drink suppliers during the 52 weeks ended September 29, 2019 are Heineken UK, Molson Coors (UK), Matthew Clark Wholesale Limited, Diageo, Coca-Cola European Partners and Budweiser Brewing Company. Our gross margins derived from beer and other drink products is affected by changes in the wholesale prices at which they are bought from brewers and suppliers and the corresponding changes in prices at which they are sold on to customers. Our Gross Margin for Drinks (Ongoing) can also be impacted by duty escalators that may be applied by the government in the United Kingdom with respect to alcoholic drinks. See "Industry." Our Gross Margin for Food (Ongoing) is affected by the changes in prices at which food is bought, the corresponding changes in wholesale prices at which they are sold on to customers and the impact of our menu changes. A substantial majority of our food supply is distributed through one supplier who, in consultation with us, in turn sources our food supplies from other suppliers in the market. We entered into a new food supply contract with this supplier in February 2019. Favorable pricing terms under this new food supply contract have positively contributed to the Stonegate Group Gross Margin for Food (Ongoing) for the 52 weeks ended September 29, 2019. For a discussion on the changes in our Gross Margin for Drink (Ongoing) and Gross Margin for Food (Ongoing) over the periods presented in this Offering Memorandum, see "—Key Performance Measures—Gross Margin for Drinks (Ongoing) and Gross Margin for Food (Ongoing)."

In connection with the Transaction, we expect to, but cannot make any guarantee that we will, realize synergies of £80 million, relating to, among others, (i) certain procurement-related cost savings that we expect to achieve primarily by migrating to Ei Group's more favorable pricing structures and by utilizing the scale of the combined operations to renegotiate drinks and food suppliers' pricing terms, (ii) savings from optimizing site operations and (iii) savings from realizing certain head office synergies. These cost savings have been estimated relative to costs incurred by Stonegate Group and Ei Group on a combined basis for the financial year 2019. For further details of such synergies, see "Summary—Stonegate Group's Summary Historical and Pro Forma Financial and Other Information." We expect to benefit from such, and other, economies of scale as we continue to expand our operations, which we believe will continue to have a favorable impact on our overall supply costs.

With respect to our property portfolio as of September 29, 2019, the majority of our leases have five-year rent review cycles. Weak rental markets outside of London give us a strong negotiating position in those markets. Our capital investment in the pubs we rent and efforts to extend lease terms have also historically helped us negotiate rent concessions from our landlords. For the period our pubs were temporarily closed due to the COVID-19 pandemic, we entered into arrangements with landlords to defer rent payments during the period of closure. See "Summary—Recent Developments—Impact of COVID-19."

We believe that we have the ability to manage our site costs at different levels of sales volumes if it is required, however, we have less flexibility to manage our operating lease rental expense, site overhead costs and central overhead costs at different levels of sales volumes. Costs related to our business rates are affected by government policy in effect from time to time. For example, in light of the COVID-19 pandemic, the UK government has provided a business rates holiday scheme for the 2020 to 2021 tax year, which means we pay no business rates for this duration. Our site costs (including costs associated with trading, utilities, door, live entertainment, consumables, promotions, staff expenses, Sky, house repairs, refuse and other site operating costs) were £40 million, £133 million and £43 million for the 16 weeks ended January 20, 2019, the 52 weeks ended September 29, 2019 and the 16 weeks ended January 19, 2020, respectively. Our operating lease rental expense is discussed above. Our site overhead costs (including bonuses, insurance premium, building repairs, other overhead costs and other operating income) were £6 million, £19 million and £7 million for the 16 weeks ended January 20, 2019, the 52 weeks ended September 29, 2019 and the 16 weeks ended January 19, 2020, respectively. Our central overhead costs, covering head office and other pub support costs, were £11 million, £35 million and £14 million for the 16 weeks ended January 20, 2019, the 52 weeks ended September 29, 2019 and the 16 weeks ended January 19, 2020, respectively. Our business rates were £12 million, £39 million and £12 million for the 16 weeks ended January 20, 2019, the 52 weeks ended September 29, 2019 and the 16 weeks ended January 19, 2020, respectively.

In addition, we aim to control our operating costs through the efficient use of our utilities, such as lighting and waste management, and we evaluate the terms of our contracts with our utility providers on an on-going basis.

Branded and Unbranded Approach

We group each of Stonegate Group's pubs into one of two categories: branded or unbranded. With the acquisition of Be At One, we operated nine different formats across these two groups, which allows us to serve a diverse set of customer groups and occasions and cater to a wide range of customer tastes and preferences. Our branded group is comprised of our Slug and Lettuce, Venues and Be At One pubs, while our unbranded group is comprised of our Proper Pubs, Town Pub and Kitchen, Common Rooms, Classic Inns pubs and City Taverns. As a result of our mix of brands, formats, target markets and offering, we are not dependent on any one brand or format to drive our sales growth and performance. For more information concerning revenue movements attributable to our specific formats, see "—Key Performance Measures—Like for Like Growth" and "—Results of Operations."

Our results of operations represent an aggregation of the differing performance and characteristics of each of our current formats. Typically, any marginal decrease in revenue for some of our brands and formats is offset by an increase in revenue of our other brands and formats.

The table below presents Stonegate Group Branded Revenue and Stonegate Group Unbranded Revenue representing our revenue information relating to Stonegate Group's branded and unbranded groups of pubs and current formats for the periods indicated:

	Revenue				
	For the 52 weeks ended September 24, 2017	For the 53 weeks ended September 30, 2018	For the 52 weeks ended September 29, 2019	For the 16 weeks ended January 19, 2020	For the 28 weeks ended April 12, 2020(1)
(£ in millions)					
Stonegate Group Branded Revenue	257	275	361	121	175
Stonegate Group Unbranded Revenue	440	499	492	157	233

(1) Includes only Stonegate Group's results and does not include the results of Ei and its subsidiaries for the period from March 3, 2020 to April 12, 2020.

Regulation

Our pubs are subject to laws and regulations that affect their operations, including in relation to employment, minimum wages, alcoholic drinks control, late-night levies, drink-driving, pub licensing, leisure (gaming) machines, competition, health and safety, sanitation, data protection and access for the disabled. See "Industry" and "Stonegate Group's Business." In addition, we are currently subject to a number of requirements mandated by the UK government in light of the COVID-19 pandemic in relation to maintaining social distancing between customers and strict hygienic measures to prevent the spread of COVID-19. Additional requirements may be imposed on us in the future.

We are subject to the Working Time Regulations in the United Kingdom. As we employ a large number of our staff at the minimum wage, increases in the minimum wage may result in increases in our labor costs and, to the extent we are not able to pass through these labor cost increases to our customers, we may experience an adverse impact on our gross margins.

Licensing authorities in the United Kingdom are authorized to impose a late-night levy on late-opening alcohol suppliers. Many of our pubs are open late and some are subject to these late-night levies. To the extent that individual licensing authorities decide to implement late-night levies or the government decides to increase the scope of these powers, we could experience an increase in our operating costs. Compliance with these laws and regulations impose costs and administrative burdens on us, as our managers are required to devote significant amounts of their time to managing and ensuring compliance with these requirements, which reduces the time they are able to dedicate to the running of the business. For risks related to changes in regulations to which we are subject or the introduction of new regulations to which we may become subject, see "Risk Factors—Risks Related to Our Business—Changes in regulations to which we are subject or the introduction of new regulations to which we may become subject could have a negative effect on our business."

Seasonal Effects

Attendance levels at our pubs are affected by the weather and by the timing of major sporting events. Persistent rain, snow or other inclement weather, especially during the summer months or over our peak trading periods such as the Christmas period, Easter, bank holidays and end-of-the-month salary weekends, or weekends in general, can have a negative effect on our revenue. Inclement weather during major sporting events can also affect our revenue due to lower footfall resulting from poor weather conditions. The absence of major sporting events, or the poor performance of a British team, could have a negative impact on our results of operations. In particular, the cancellation or postponement of sporting events as a consequence of the COVID-19 pandemic or the holding of sporting events behind closed doors or with a limited number of spectators, could also lead to lower footfall in our pubs, and thereby a decline in our revenue. The seasonality of the pub industry results in variable demand and, consequently, our revenue and operating results tend to fluctuate from period to period.

Description of Key Income Statement Line Items

Revenue

Our revenue is mainly derived from the sale of food and drinks to third parties, after deducting discounts and VAT. It also includes revenue derived from admission, accommodation and machine (gaming), and is recognized at the point of sale. In addition, it includes rent revenue, which is recognized on a straight line basis for the term of the lease based on the contractual terms of the lease agreements.

In respect of our loyalty card scheme, the More card (formerly, the ScreamMore 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.

Other Income

Beginning the 28 weeks ended April 12, 2020, we have started to recognize other income as a separate line item on our income statement. Other income includes monies received in the form of government grants and are recorded in the income statement in the same periods during which the related expenses were incurred.

Operating Costs

Our operating costs represent our drink and food costs, employment costs, operating lease rentals and other costs.

- Our drink and food costs represented 28.2% of our total operating costs for the 52 weeks ended September 29, 2019 and primarily comprised the costs associated with the supply of our food and drinks;

- Our employment costs represented 32.6% of our total operating costs for the 52 weeks ended September 29, 2019 and primarily comprised salaries and wages to our staff and management;
- Our operating lease rental costs represented 8.1% of our total operating costs for the 52 weeks ended September 29, 2019 and primarily comprised rent payments in respect of our short leasehold properties; and
- Our other costs represented 31.1% of our total operating costs for the 52 weeks ended September 29, 2019 and primarily comprised door costs (*i.e.*, costs associated with entrance security at some of our pubs), live entertainment costs, live sport subscription costs (such as the cost of subscriptions to SKY), repair and maintenance costs, business rates payments, insurance costs, utilities costs and site manager incentive payments.

Depreciation, Amortization and Impairment

Depreciation relates to the depreciation and impairment of our property, plant and equipment over their useful lives. Amortization relates to the amortization and impairment of certain of our intangible assets over their useful lives. Our intangible assets include our operating leasehold interests, which are capitalized and amortized on a straight-line basis over their useful lives. Goodwill arising on consolidation in respect of acquisitions is capitalized and is tested annually for impairment.

Profit/(Loss) on Sale of Non-Current Assets

Profit/(loss) on sale of non-current assets represents the difference between the proceeds received from the sale of a site and its book value. For the 52 weeks ended September 29, 2019, this line item also includes write-offs related to certain tangible fixed assets at certain sites that are no longer in use due to capital investments made at these sites.

Finance Income

Our finance income represents interest receivable on loans extended to certain members of our management as well as interest that accrued on our overnight bank deposits, which we recognize as it accrues using the effective interest method.

Finance Costs

Our finance costs include interest on bank loans, notes, the loans made to certain members of our management, certain pension charges related to the carrying value of our pension liability to its fair value, amortization of debt issue costs, exceptional items relating to refinancing costs and certain other interest expenses.

UK Income Tax Credit/(Charge)

The charge for taxation is based on the profit or loss for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognized, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not been reversed by the balance sheet date, except as otherwise required by International Accounting Standard 12.

Reductions of corporation tax in the United Kingdom to 19% (effective from April 1, 2017) and 17% (effective from April 1, 2020) were enacted on October 26, 2015 and September 25, 2016, respectively. In the March 2020 budget, the UK government announced that corporation tax will be frozen at 19%, reversing the previous plan to reduce it to 17%.

Profit/(Loss) for the Period

Profit/(loss) for the period represents the result of the consolidated income statement after provision for taxation.

Results of Operations

The 28 Weeks Ended April 12, 2020 Compared to the 28 Weeks Ended April 14, 2019

The table below sets out our results for the 28 weeks ended April 12, 2020 compared to the 28 weeks ended April 14, 2019:

(£ in millions)	28 weeks ended April 14, 2019	28 weeks ended April 12, 2020	Percentage change
Revenue	**453**	**452**	**(0.2)%**
Other Income	—	9	—
Operating costs	(409)	(411)	0.5%
Operating profit/(loss) before depreciation, amortization, impairment and loss on sale of non-current assets	**44**	**50**	**13.6%**
Depreciation, amortization and impairment	(39)	(94)	NM*
Loss on sale of non-current assets	—	—	—
Operating profit (loss)	**5**	**(44)**	**NM***
Finance costs	(24)	(69)	NM*
Profit/(loss) before taxation	**(19)**	**(113)**	**NM***
UK income tax charge	(1)	(20)	NM*
Profit/(loss) for the period	**(20)**	**(133)**	**NM***

* Not meaningful

Revenue

Our revenue for the 28 weeks ended April 12, 2020 decreased by £1 million, or 0.2%, from £453 million for the 28 weeks ended April 14, 2019 to £452 million, primarily due to the impact of the COVID-19 pandemic, which resulted in government-mandated closure of our pubs from March 20, 2020 through the end of the reporting period, and the impact of Storm Ciara and Storm Dennis, which were both powerful and long-lived extratropical cyclones that occurred a week apart in February 2020 and fell over weekends in both instances. Our decrease in revenue was partially offset by the consolidation of Ei Group's revenue within our results for the period from March 3, 2020 to April 12, 2020 (£42 million), and higher sales during the Christmas season.

Other Income

Beginning the 28 weeks ended April 12, 2020, we have started to recognize other income on our income statement. Our other income for the 28 weeks ended April 12, 2020 consisted of government grants received by us under the Job Retention Scheme, which provided payroll support for our employees who were furloughed due to the temporary closure of our pubs in light of the COVID-19 pandemic.

Operating Costs

Our operating costs for the 28 weeks ended April 12, 2020 increased by £2 million, or 0.5%, from £409 million for the 28 weeks ended April 14, 2019 to £411 million, primarily due to the consolidation of Ei Group's operating costs within our results for the period from March 3, 2020 to April 12, 2020, offset by the elimination of lease expenses of £35 million as operating costs pursuant to the adoption of IFRS 16 and the temporary closure of our pubs from March 20, 2020 due to the COVID-19 pandemic, which led to a reduction in our operating costs for the period between March 20, 2020 and April 12, 2020. During this period, we also reduced our operating costs by implementing a number of cost control measures. See "Summary—Recent Developments—Impact of COVID-19."

Depreciation, Amortization and Impairment

Our depreciation, amortization and impairment for the 28 weeks ended April 12, 2020 increased by £55 million, from £39 million for the 28 weeks ended April 14, 2019 to £94 million, primarily due to the recognition of depreciation of £33 million in respect of our operating leases pursuant to the adoption of IFRS 16, the consolidation of Ei Group's depreciation and amortization expense within our results for the period from March 3, 2020 to April 12, 2020, and the recognition of £24 million of impairment charges due to the impact of the COVID-19 pandemic. See "Recent Developments—Impairment Review."

Profit/Loss on Sale of Non-Current Assets

We did not record any profit/loss on sale of non-current assets for the 28 weeks ended April 12, 2020 and the 28 weeks ended April 14, 2019 as our profits from the sale of non-current assets during these periods offset our losses.

Finance Costs

Our finance costs for the 28 weeks ended April 12, 2020 increased by £45 million, from £24 million for the 28 weeks ended April 14, 2019 to £69 million, primarily due to recognition of additional interest expense of £17 million in respect of lease liabilities pursuant to the adoption of IFRS 16, the higher interest expense related to amounts borrowed to finance the Transaction and the consolidation of Ei Group's finance costs within our results for the period from March 3, 2020 to April 12, 2020.

UK Income Tax Credit/(Charge)

Our tax charge on ordinary activities for the 28 weeks ended April 12, 2020 was £20 million compared to a charge of £1 million for the 28 weeks ended April 14, 2019, primarily due to the consolidation of Ei Group's tax charge within our results for the period from March 3, 2020 to April 12, 2020, partially offset by lower profit forecast for the 52 weeks ending September 27, 2020 on account of transactional and integration costs in connection with the Transaction and the impact of the COVID-19 pandemic.

Profit/(Loss) for the Period

We reported a loss of £133 million for the 28 weeks ended April 12, 2020 compared to a loss of £20 million for the 28 weeks ended April 14, 2019.

The 16 Weeks Ended January 19, 2020 Compared to the 16 Weeks Ended January 20, 2019

The table below sets out our results for the 16 weeks ended January 19, 2020 compared to the 16 weeks ended January 20, 2019:

(£ in millions)	16 weeks ended January 20, 2019	16 weeks ended January 19, 2020	Percentage change
Revenue	**258**	**279**	**8.1%**
Operating costs	(239)	(217)	(9.3)%
Operating profit/(loss) before depreciation, amortization, impairment and loss on sale of non-current assets	**19**	**62**	**NM***
Depreciation, amortization and impairment	(21)	(37)	79.2%
Loss on sale of non-current assets	(0.3)	(0.4)	55.7%
Operating profit (loss)	(2)	24	NM*
Finance income	0.01	0.001	(87.5)%
Finance costs	(13)	(22)	75.6%
Profit/(loss) before taxation	**(15)**	**2**	**NM***
UK income tax credit/(charge)	(0.6)	(0.01)	(98.0)%
Profit/(loss) for the period	**(16)**	**2**	**NM***

* Not meaningful

Revenue

Our revenue for the 16 weeks ended January 19, 2020 increased by £21 million, or 8.1%, from £258 million for the 16 weeks ended January 20, 2019 to £279 million, primarily due to higher sales during the Christmas season and an increase in the number of our pubs, which for the 16 weeks ended January 19, 2020 included 32 pubs acquired pursuant to the Fever Bars Acquisition and six pubs acquired pursuant to the Second Novus Acquisition.

Operating Costs

Our operating costs for the 16 weeks ended January 19, 2020 decreased by £22 million, or 9.3%, from £239 million for the 16 weeks ended January 20, 2019 to £217 million, primarily due to the elimination of lease expenses of £19 million as operating costs pursuant to the adoption of IFRS 16 and higher than usual operating costs in the 16 weeks ended January 20, 2019 due to the one-off payment of discretionary management bonuses in the amount of £16 million to certain of our senior managers under our prior management incentive program.

Depreciation, Amortization and Impairment

Our depreciation, amortization and impairment for the 16 weeks ended January 19, 2020 increased by £17 million or 79.2%, from £21 million for the 16 weeks ended January 20, 2019 to £38 million, primarily due to the recognition of depreciation of £13 million in respect of our operating leases pursuant to the adoption of IFRS 16 and higher depreciation resulting from the increase in asset value of the pubs where we have made capital investments.

Loss on Sale of Non-Current Assets

Our loss on sale of non-current assets for the 16 weeks ended January 19, 2020 increased by £0.1 million or 55.7%, from a loss of £0.3 million for the 16 weeks ended January 20, 2019 to a loss of £0.4 million, primarily due to our realization of a lower net consideration for properties disposed of during the 13 weeks ended January 20, 2019, as a result of a disposal of greater number of loss-making sites during the 16 weeks ended January 19, 2020 (two sites) compared to the 16 weeks ended January 20, 2019 (one).

Finance Income

Our finance income for the 16 weeks ended January 19, 2020 decreased by £0.007 million, from £0.01 million for the 16 weeks ended January 20, 2019 to £0.001 million.

Finance Costs

Our finance costs for the 16 weeks ended January 19, 2020 increased by £10 million, or 75.6%, from £13 million for the 16 weeks ended January 20, 2019 to £22 million, primarily due to the recognition of additional interest expense of £9 million in respect of lease liabilities pursuant to the adoption of IFRS 16.

UK Income Tax Credit/(Charge)

Our tax charge on ordinary activities for the 16 weeks ended January 19, 2020 was a charge of £0.01 million compared to a charge of £0.6 million for the 16 weeks ended January 20, 2019, primarily due to lower profit forecast for the 52 weeks ending September 27, 2020 on account of transactional and integration costs that we expect to recognize in connection with the Transaction.

Profit/(Loss) for the Period

We reported a profit of £2 million for the 16 weeks ended January 19, 2020 compared to a loss of £15 million for the 16 weeks ended January 20, 2019.

The 52 weeks ended September 29, 2019 Compared to the 53 weeks ended September 30, 2018

The table below sets out our results for the 52 weeks ended September 29, 2019 compared to the 53 weeks ended September 30, 2018:

	For the 53 weeks ended September 30, 2018	For the 52 weeks ended September 29, 2019	Percentage change
(£ in millions)			
Revenue	**774**	**853**	**10.1%**
Operating costs	(676)	(752)	11.3%
Operating profit/(loss) before depreciation, amortization, impairment and loss on sale of non-current assets	**98**	**100**	**2.0%**
Depreciation, amortization and impairment	*(61)*	*(79)*	*27.9%*
Loss on sale of non-current assets	*(7)*	*(3)*	*(60.2%)*
Operating profit (loss)	**30**	**19**	**(36.5%)**
Finance income	0.08	0.1	62.5%
Finance costs	(34)	(44)	27.0%
Profit/(loss) before taxation	**(4)**	**(25)**	**NM***
UK income tax credit/(charge)	(3)	1	NM*
Profit/(loss) for the period	**(8)**	**(24)**	**NM***

* Not meaningful

Revenue

Our revenue for the 52 weeks ended September 29, 2019 increased by £78 million, or 10.1%, from £774 million for the 53 weeks ended September 30, 2018 to £853 million for the 52 weeks ended September 29, 2019, primarily due to higher sales on account of capital investments at our invested sites and consolidation within our results of the revenue from the 33 pubs acquired pursuant to the Be At One Acquisition for the entire period and the 32 pubs acquired pursuant to the Fever Bars Acquisition from January 22, 2019 (the date of completion of the Fever Bars Acquisition), partially offset by an additional week of trading during the 53 weeks ended September 30, 2018, which accounted for revenue of £15 million.

Operating Costs

Our operating costs for the 52 weeks ended September 29, 2019 increased by £76 million, or 11.3%, from £676 million for the 53 weeks ended September 30, 2018 to £752 million for the 52 weeks ended September 29, 2019, primarily due to cost increases attributable to higher sales, consolidation within our results of the operating costs of the 32 pubs acquired pursuant to the Fever Bars Acquisition, the 11 pubs acquired pursuant to the First Novus Acquisitions and the six pubs acquired pursuant to the Second Novus Acquisitions and the impact of increases in National Living Wage and National Minimum Wage.

Depreciation, Amortization and Impairment

Our depreciation, amortization and impairment for the 52 weeks ended September 29, 2019 increased by £17 million, or 27.9%, from £61 million for the 53 weeks ended September 30, 2018 to £79 million for the 52 weeks ended September 29, 2019, primarily due to higher depreciation resulting from the increase in asset value of the pubs where we have made capital investments and the consolidation within our results of the depreciation and amortization expense attributable to the 32 pubs that we acquired pursuant to the Fever Bars Acquisition, the 11 pubs acquired pursuant to the First Novus Acquisitions and the six pubs acquired pursuant to the Second Novus Acquisitions.

Loss on Sale of Non-Current Assets

Our loss on sale of non-current assets for the 52 weeks ended September 29, 2019 decreased by £4 million, or 60.2%, from a loss of £7 million for the 53 weeks ended September 30, 2018 to a loss of £3 million for the 52 weeks ended September 29, 2019, primarily due to our realization of a lower net consideration for properties disposed of during the 52 weeks ended September 29, 2019, as a result of a disposal of fewer loss-making sites during the 52 weeks ended September 29, 2019 (five such sites) compared to the 53 weeks ended September 30, 2018 (twelve such sites) as well as a lower write-off of certain tangible assets during the 52 weeks ended September 29, 2019 that are no longer in use due to capital investments at certain of our sites.

Finance Income

Our finance income for the 52 weeks ended September 29, 2019 increased by 62.5%, from £0.08 million for the 53 weeks ended September 30, 2018 to £ 0.1 million for the 52 weeks ended September 29, 2019.

Finance Costs

Our finance costs for the 52 weeks ended September 29, 2019 increased by £10 million, or 27.0%, from £34 million for the 53 weeks ended September 30, 2018 to £44 million for the 52 weeks ended September 29, 2019. This increase was primarily due to higher interest expense related to amounts borrowed to finance the Be At One Acquisition, the First Novus Acquisitions, the Fever Bars Acquisition and the Second Novus Acquisitions. Financing for these acquisitions was initially obtained pursuant to borrowings made under a senior secured bridge facility agreement entered into by us in July 2018, which was replaced by the proceeds of the offering of £150 million in aggregate principal amount of floating rate notes issued by us in February 2019.

UK Income Tax Credit/(Charge)

Our tax charge on ordinary activities for the 52 weeks ended September 29, 2019 decreased by £4 million, from £3 million for the 53 weeks ended September 30, 2018 to a £1 million credit for the 52 weeks ended September 29, 2019, primarily due to the increase in taxable loss during this period due to higher one-off costs.

Profit/(Loss) for the Period

We reported a loss of £24 million for the 52 weeks ended September 29, 2019 compared to a loss of £8 million for the 53 weeks ended September 30, 2018.

The 53 weeks ended September 30, 2018 Compared to the 52 weeks ended September 24, 2017

The table below sets out our results for the 53 weeks ended September 30, 2018 compared to the 52 weeks ended September 24, 2017:

(£ in millions)	For the 52 weeks ended September 24, 2017	For the 53 weeks ended September 30, 2018	Percentage change
Revenue	**697**	**774**	**11.0%**
Operating costs	(616)	(676)	9.8%
Operating profit/(loss) before depreciation, amortization, impairment and loss on sale of non-current assets	**82**	**98**	**20.6%**
Depreciation, amortization and impairment	*(51)*	*(61)*	*20.0%*
Loss on sale of non-current assets	*(5)*	*(7)*	*35.3%*
Operating profit (loss)	**25**	**30**	**18.6%**
Finance income	0.1	0.08	(20.8)%
Finance costs	(48)	(34)	(27.5)%
Profit/(loss) before taxation	**(22)**	**(5)**	**(79.8)%**
UK income tax credit/(charge)	(2)	(3)	59.0%
Profit/(loss) for the period	**(24)**	**(8)**	**(68.9)%**

Revenue

Our revenue for the 53 weeks ended September 30, 2018 increased by £77 million, or 11.0%, from £697 million for the 52 weeks ended September 24, 2017 to £774 million for the 53 weeks ended September 30, 2018, primarily due to higher sales on account of capital investments at our invested sites and the Football World Cup, and due to an additional week of trading during the 53 weeks ended September 30, 2018, which accounted for revenue of £15 million.

Operating Costs

Our operating costs for the 53 weeks ended September 30, 2018 increased by £60 million, or 9.8%, from £616 million for the 52 weeks ended September 24, 2017 to £676 million for the 53 weeks ended September 30, 2018, primarily due to cost increases attributable to higher sales, consolidation within our results of the operating costs of the 33 pubs acquired pursuant to the Be At One Acquisition, the impact of increases in National Living Wage and National Minimum Wage, business rates and alcohol duty, and due to an additional week of trading during the 53 weeks ended September 30, 2018.

Depreciation, Amortization and Impairment

Our depreciation, amortization and impairment for the 53 weeks ended September 30, 2018 increased by £10 million, or 20.0%, from £51 million for the 52 weeks ended September 24, 2017 to £61 million for the 53 weeks ended September 30, 2018, primarily due to increased depreciation resulting from the increase in asset value of the pubs where we have made capital investments and increased depreciation from the fair value of assets acquired in business combinations.

Loss on Sale of Non-Current Assets

Our loss on sale of non-current assets for the 53 weeks ended September 30, 2018 increased by £2 million, or 35.3%, from a loss of £5 million for the 52 weeks ended September 24, 2017 to a loss of £7 million for the 53 weeks ended September 30, 2018, primarily due to our realization of a lower net consideration for properties disposed of during the 53 weeks ended September 30, 2018, as a result of a disposal of fewer loss-making sites in the 53 weeks ended September 30, 2018 (12 such sites disposed) compared to the 52 weeks ended September 24, 2017 (18 such sites disposed).

Finance Income

Our finance income for the 53 weeks ended September 30, 2018 decreased by 20.8%, from £0.1 million for the 52 weeks ended September 24, 2017 to £0.08 million for the 53 weeks ended September 30, 2018.

Finance Costs

Our finance costs for the 53 weeks ended September 30, 2018 decreased by £13 million, or 27.5%, from £48 million for the 52 weeks ended September 24, 2017 to £34 million for the 53 weeks ended September 30, 2018. This decrease was primarily due to the impact of our payment of certain accrued but unpaid interest (£11 million in aggregate) and redemption premium (£5 million in aggregate) in connection with the redemption of our then outstanding senior secured notes in March 2017. A similar financing event did not occur in the 53 weeks ended September 30, 2018, which resulted in lower finance costs for this period compared to the prior period.

UK Income Tax Credit/(Charge)

Our tax charge on ordinary activities for the 53 weeks ended September 30, 2018 increased by £1 million, or 59.0%, from £2 million for the 52 weeks ended September 24, 2017 to £3 million for the 53 weeks ended September 30, 2018, primarily due to a higher effective tax rate during the 53 weeks ended September 30, 2018 resulting from our increased taxable profit and lower one-off costs.

Profit/(Loss) for the Period

We reported a loss of £8 million for the 53 weeks ended September 30, 2018 compared to a loss of £24 million for the 52 weeks ended September 24, 2017.

Key Performance Measures

In evaluating our results of operations, we refer to key financial and non-financial measures relating to the performance of our business. In addition to the key line items of our consolidated income statement (which we consider to be revenue, gross profit and operating profit), the principal measures used to evaluate our performance include:

- Stonegate Group Drink Sales Growth (Like for Like);
- Stonegate Group Food Sales Growth (Like for Like);
- Stonegate Group Revenue Growth (Like for Like);
- Stonegate Group Pub Profit Growth (Like for Like);
- Stonegate Group Gross Margin Growth (Like for Like);
- Stonegate Group Gross Margin for Drinks (Ongoing);
- Stonegate Group Gross Margin for Food (Ongoing);
- Stonegate Group Adjusted EBITDA;
- Stonegate Group Adjusted EBITDA Margin;
- Stonegate Group Cash Conversion; and
- Stonegate Group Return on Investment.

These non-IFRS financial measures are not measures determined based on IFRS, US GAAP or any other internationally accepted accounting principles, and you should not consider such items as an alternative to the historical financial position or other indicators of our cash flow and forward position based on IFRS measures and they should not be considered as alternative measures to evaluate our performance. The non-IFRS financial measures, as defined by us, may not be comparable to similarly titled measures as presented by other companies due to differences in the way our non-IFRS financial measures are calculated. We have presented non-IFRS financial measures in this Offering Memorandum because our management believes they are useful as additional tools to measure our operating performance, the profitability of our operations, financial information and cash flow, and because we believe that these figures are commonly reported to, and widely used by, investors. The non-IFRS financial information contained in this Offering Memorandum is not intended to comply with the reporting requirements of the SEC and will not be subject to review by the SEC. Non-IFRS financial measures have important limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our position or results as reported under IFRS. The non-IFRS measures presented in this Offering Memorandum have been prepared for information purposes only and have not been prepared in accordance with IFRS or audited or reviewed in accordance with any applicable auditing standards. See "Presentation of Financial and Other Information—Non-IFRS Financial Information."

Like for Like Growth

Stonegate Group Drink Sales Growth (Like for Like), Stonegate Group Food Sales Growth (Like for Like), Stonegate Group Revenue Growth (Like for Like), Stonegate Group Pub Profit Growth (Like for Like) and Stonegate Group Gross Margin Growth (Like for Like) are defined under "Certain Definitions—Key Performance Indicators (KPIs) and Other Non-IFRS Metrics." For Stonegate Group Drink Sales Growth (Like for Like), Stonegate Group Food Sales Growth (Like for Like), Stonegate Group Revenue Sales Growth (Like for Like), Stonegate Group Pub Profit Growth (Like for Like) and Stonegate Group Gross Margin Growth (Like for Like) for the 53 weeks ended September 30, 2018, we have presented like for like sales Stonegate Group Pre-adjusted EBITDA and total gross margin, as applicable, for a 52-week period rather than a 53-week period to enhance comparability. Accordingly, we have calculated like for like sales, Stonegate Group Pre-adjusted EBITDA and total gross margin as applicable, for this period by taking into account, in each case, the like for like sales, Stonegate Group Pre-adjusted EBITDA and total gross margin, as applicable, for the first 52 weeks to enhance comparability. Stonegate Group Drink Sales Growth (Like for Like), Stonegate Group Food Sales Growth (Like for Like), Stonegate Group Revenue Growth (Like for Like), Stonegate Group Pub Profit Growth (Like for Like) and Stonegate Group Gross Margin Growth (Like for Like) for the 28 weeks ended April 12, 2020, include only Stonegate Group's results and does not include the results of Ei and its subsidiaries for the period from March 3, 2020 to April 12, 2020. Accordingly, these metrics for the 28 weeks ended April 12, 2020 reflect the like-for-like performance of Stonegate Group's managed pubs only. For more information concerning how these metrics are calculated, see "Presentation of Financial and Other Information—Non-IFRS Financial Information."

It is management's view that various factors affect Stonegate Group Drink Sales Growth (Like for Like), Stonegate Group Food Sales Growth (Like for Like), Stonegate Group Revenue Growth (Like for Like), Stonegate Group Pub Profit Growth (Like for Like) and Stonegate Group Gross Margin Growth (Like for Like), including:

- health emergencies, such as the COVID-19 pandemic;
- the prevailing economic climate and trends;
- customer preferences and our ability to anticipate and respond effectively to trends and customer preferences;
- changes in the competitive environment;
- the level of our capital investment in our pubs;
- changes in our food and drink mix and pricing;
- the number and mix of pubs included in the calculation;
- management of our pubs and the level of customer service that we provide; and
- our ability to source and distribute food and drink products efficiently.

The following table presents Stonegate Group Drink Sales Growth (Like for Like), Stonegate Group Food Sales Growth (Like for Like), Stonegate Group Revenue Growth (Like for Like), Stonegate Group Pub Profit Growth (Like for Like) and Stonegate Group Gross Margin Growth (Like for Like) for the periods indicated:

	For the 52 weeks ended September 24, 2017	For the 53 weeks ended September 30, 2018	For the 52 weeks ended September 29, 2019	For the 16 weeks ended January 19, 2020	For the 28 weeks ended April 12, 2020(1)
Stonegate Group Drink Sales Growth (Like for Like)	3.1%	6.0%	2.1%	3.6%	(11.9)%
Stonegate Group Food Sales Growth (Like for Like)	(2.3)%	0.8%	(0.5)%	1.1%	(15.0)%
Stonegate Group Revenue Growth (Like for Like)	2.0%	4.7%	1.7%(2)	3.3%	(10.1)%(3)
Stonegate Group Pub Profit Growth (Like for Like)	2.5%	7.4%	4.8%	12.9%	(25.1)%
Stonegate Group Gross Margin Growth (Like for Like)	2.6%	4.9%	3.5%	5.1%	(8.1)%

(1) Reflects only Stonegate Group's like-for-like performance and does not include the like-for-like performance of Ei and its subsidiaries.

(2) Stonegate Group Revenue Growth (Like for Like) for the 52 weeks ended September 29, 2019 would have been 2.9% if Stonegate Group's revenue for the comparable period was adjusted to exclude (i) higher sales due to the Football World Cup during June and July 2018 and (ii) a decline in sales due to severe cold weather conditions experienced across the United Kingdom during parts of February and March 2018.

(3) Stonegate Group Revenue Growth (Like for Like) for the seven weeks ended March 8, 2020, adjusted to exclude the two-week period from February 10, 2020 to February 23, 2020, was 2.5%, representing Stonegate Group Revenue Growth (Like for Like) for the portion of our second quarter of 2020 not impacted by the COVID-19 pandemic and storms Ciara and Dennis.

Stonegate Group Drink Sales Growth (Like for Like) for our Last Three Financial Years, the 16 Weeks Ended January 19, 2020 and the 28 Weeks Ended April 12, 2020

Stonegate Group Drink Sales Growth (Like for Like) was negative 11.9% for the 28 weeks ended April 12, 2020, primarily due to the impact of the COVID-19 pandemic. We saw a decline in our revenues for the period from March 9, 2020 to March 19, 2020 because of reduced footfall at our pubs due to the impact of the COVID-19 pandemic, and other than nominal rent revenue, we did not record any revenue for the period from March 20, 2020 to April 12, 2020, when our pubs were temporarily closed.

Stonegate Group Drink Sales Growth (Like for Like) was 3.6% for the 16 weeks ended January 19, 2020, primarily due to higher drink sales within our Slug & Lettuce, Town Pub and Kitchens and City Taverns formats, improvements stemming from capital investments made, as well as our ability to capitalize on key revenue generating periods such as the Christmas season and key sporting events such as the Rugby World Cup.

Stonegate Group Drink Sales Growth (Like for Like) was 2.1% for the 52 weeks ended September 29, 2019, primarily due to higher drink sales at our Slug & Lettuce and Town Pub and Kitchens formats, improvements stemming from the capital investments made, as well as our ability to capitalize on key revenue generating periods such as Christmas for the 52 weeks ended September 29, 2019. This growth rate, which is relative to our performance for the 53 weeks ended September 30, 2018, was impacted by higher sales for the 53 weeks ended September 30, 2018 on account of the Football World Cup and prolonged periods of good weather experienced during that financial year, with similar events not having recurred during the 52 weeks ended September 29, 2019.

Stonegate Group Drink Sales Growth (Like for Like) was 6.0% for the 53 weeks ended September 30, 2018, primarily due to higher drink sales at our Slug & Lettuce format, improvements stemming from the capital investments made, prolonged periods of good weather experienced during the summer of 2018, as well as our ability to capitalize on key revenue generating periods such as the Christmas season and key sporting events such as the Football World Cup, partially offset by a decline in our sales due to severe cold weather conditions experienced across the United Kingdom during parts of February and March 2018.

Stonegate Group Drink Sales Growth (Like for Like) was 3.1% for the 52 weeks ended September 24, 2017, primarily due to higher drink sales at our Slug and Lettuce and Classic Inns formats, driven by improvements stemming from the capital investments made at pubs operating in these formats, as well as our ability to capitalize on key revenue generating periods such as the Christmas season.

Stonegate Group Food Sales Growth (Like for Like) for our Last Three Financial Years, the 16 Weeks Ended January 19, 2020 and the 28 Weeks ended April 12, 2020

Stonegate Group Food Sales Growth (Like for Like) was negative 15.0% for the 28 weeks ended April 12, 2020, primarily due to the impact of the COVID-19 pandemic. We saw a decline in our revenues for the period from March 9, 2020 to March 19, 2020 because of reduced footfall at our pubs due to the impact of the COVID-19 pandemic and we did not record any food sales for the period from March 20, 2020 to April 12, 2020, when our pubs were temporarily closed.

Stonegate Group Food Sales Growth (Like for Like) was 1.1% for the 16 weeks ended January 19, 2020, primarily due to food sales growth in our City Taverns, Classic Inns and Town Pub and Kitchens formats, partially offset by increased competition from food sales in pubs, bars and restaurants.

Stonegate Group Food Sales Growth (Like for Like) was negative 0.5% for the 52 weeks ended September 29, 2019, compared to 0.8% for the 53 weeks ended September 30, 2018. This decline was primarily due to increased competition from food sales in pubs, bars and restaurants, partially offset by food sales growth at pubs operating in certain of our formats, including pubs operating in our Classic Inns, Common Room and Slug & Lettuce formats.

Stonegate Group Food Sales Growth (Like for Like) was 0.8% for the 53 weeks ended September 30, 2018, compared to negative 2.3% for the 52 weeks ended September 24, 2017. This growth was primarily due to stabilization of our competitive environment and food sales growth at pubs operating in certain of our formats, including pubs operating in our Proper Pubs, Slug & Lettuce and Common Room formats.

Stonegate Group Pub Profit Growth (Like for Like) for our Last Three Financial Years, the 16 Weeks Ended January 19, 2020 and the 28 Weeks Ended April 12, 2020

Stonegate Group Pub Profit Growth (Like for Like) was negative 25.1% for the 28 weeks ended April 12, 2020, primarily due to the impact of the COVID-19 pandemic. We saw a decline in our pub profits for the period from March 9, 2020 to March 19, 2020 because of reduced footfall at our pubs due to the impact of the COVID-19 pandemic and we did not record any profits for the period from March 20, 2020 to April 12, 2020, when our pubs were temporarily closed.

Stonegate Group Pub Profit Growth (Like for Like) was 12.9% for the 16 weeks ended January 19, 2020, primarily due to higher drink sales within our Slug & Lettuce, Town Pub and Kitchens and City Taverns formats, improvements stemming from capital investments made, as well as our ability to capitalize on key revenue generating periods such as the Christmas season and key sporting events such as the Rugby World Cup.

Stonegate Group Pub Profit Growth (Like for Like) was 4.8% for the 52 weeks ended September 29, 2019, primarily due to higher drink sales at our Slug & Lettuce and Town Pub and Kitchens formats, improvements stemming from the capital investments made, as well as our ability to capitalize on key revenue generating periods such as Christmas for the 52 weeks ended September 29, 2019. This growth rate, which is relative to our performance for the 53 weeks ended September 30, 2018, was impacted by higher sales for the 53 weeks ended September 30, 2018 on account of the Football World Cup and prolonged periods of good weather experienced during that financial year, with similar events not having recurred during the 52 weeks ended September 29, 2019. In addition, our continued use of our labor efficiency tool, first introduced in 2015, also positively contributed to the Stonegate Group Pub Profit Growth (Like for Like) for the 52 weeks ended September 29, 2019. Our labor efficiency tool allows us to tailor our staffing needs to more closely mirror consumer demand and footfall at each of our pubs throughout the day and during the year, thereby allowing us to mitigate headwinds associated with the cost of labor. This tool has been helpful in partially mitigating the impact of increases in the National Living Wage and National Minimum Wage.

Stonegate Group Pub Profit Growth (Like for Like) was 7.4% for the 53 weeks ended September 30, 2018, primarily due to increased drinks sales growth, the continuing success of our capital investments in increasing our margins and our ability to capitalize on revenue generating periods such as the Christmas season and key sporting events during the 53 weeks ended September 30, 2018, such as the Football World Cup, partially offset by a decline in our sales due to severe cold weather conditions experienced across the United Kingdom during parts of February and March 2018.

Stonegate Group Pub Profit Growth (Like for Like) was 2.5% for the 52 weeks ended September 24, 2017, primarily due to increased drinks sales growth and the continuing success of our capital investments in increasing our margins. Relative to the 52 weeks ended September 25, 2016, Stonegate Group Pub Profit

Growth (Like for Like) was lower during this period because of the absence of significant sporting or other major events during the 52 weeks ended September 24, 2017, unlike the 52 weeks ended September 25, 2016, which included the effects on results of, among others, the Rugby World Cup and the European Football Championships.

Stonegate Group Gross Margin Growth (Like for Like) for our Last Three Financial Years, the 16 Weeks Ended January 19, 2020 and for 28 Weeks Ended April 12, 2020

Stonegate Group's gross margin (ongoing), calculated as the sum of Stonegate Group's drinks margin (ongoing), food margin (ongoing), machine margin (ongoing) and other margin (ongoing), was £187 million, £624 million and £208 million for the 28 weeks ended April 14, 2019, the 52 weeks ended September 29, 2019 and the 28 weeks ended April 12, 2020. Stonegate Group's drinks margin (ongoing) represents revenue from drinks sales (excluding revenue from drinks sales at disposed sites) minus cost of the drinks purchased (excluding costs of drinks purchased at disposed sites). Stonegate Group's food margin (ongoing) represents revenue from food sales (excluding revenue from food sales at disposed sites) minus cost of the food purchased (excluding costs of food purchased at disposed sites). Stonegate Group's machine margin (ongoing) represents revenue from machines sales (excluding revenue from machine sales at disposed sites) minus costs associated with the operation of machines (excluding costs associated with the operation of machines at disposed sites). Stonegate Group's other margin (ongoing) represents revenue from other sources such as door income, accommodation income, income from room hire (excluding such revenue from disposed sites) minus central overhead costs such as head office costs.

Stonegate Group Gross Margin Growth (Like for Like) was negative 8.1% for the 28 weeks ended April 12, 2020, primarily due to the impact of the COVID-19 pandemic and the impact of Storm Ciara and Storm Dennis that occurred a week apart in February 2020 and fell over weekends in both instances.

Stonegate Group Gross Margin Growth (Like for Like) was 5.1% for the 16 weeks ended January 19, 2020, primarily due to higher drink sales margins driven by sales at our Slug & Lettuce, Town Pub and Kitchens and City Taverns formats, higher food sales margins resulting from more favorable pricing terms under our new food supply contract, our ability to capitalize on key revenue generating periods such as the Christmas season and key sporting events such as the Rugby World Cup and the implementation of our revised discounting strategy.

Stonegate Group Gross Margin Growth (Like for Like) was 3.5% for the 52 weeks ended September 29, 2019, primarily due to higher drink sales margins driven by sales at our Slug & Lettuce and Town Pub and Kitchens formats, higher food sales margins resulting from more favorable pricing terms under our new food supply contract, our ability to capitalize on key revenue generating periods such as Christmas and the implementation of our revised discounting strategy. In addition, a freeze in the duty rates on beer and most other spirits and ciders announced in the October 2018 budget also positively contributed to the Stonegate Group Gross Margin Growth (Like for Like) for the 52 weeks ended September 29, 2019.

Stonegate Group Gross Margin Growth (Like for Like) was 4.9% for the 53 weeks ended September 30, 2018, primarily due to higher drink sales margins driven by sales at our Slug & Lettuce format, improvements stemming from the capital investments made, as well as our ability to capitalize on key sporting events such as the Football World Cup.

Stonegate Group Gross Margin Growth (Like for Like) was 2.6% for the 52 weeks ended September 24, 2017, primarily due to higher drinks and food sales margins resulting from pricing initiatives that have allowed us to better analyze product performance at our pubs and to analyze and respond to changes in consumer trends in respect of our menu offerings resulting in enhanced food margins.

Stonegate Group Gross Margin for Drinks (Ongoing) and Stonegate Group Gross Margin for Food (Ongoing)

Stonegate Group Gross Margin for Drinks (Ongoing) represents (i) for the relevant period, our revenue from drinks sales (excluding revenue from drinks sales at disposed sites) minus cost of the drinks purchased (excluding costs of drinks sales at disposed sites), divided by (ii) revenue from drinks sales (excluding revenue from drinks sales at disposed sites) for the relevant period. Stonegate Group Gross Margin for Food (Ongoing) represents (i) for the relevant period, our revenue from food sales (excluding revenue from food sales at disposed sites) minus cost of the food purchased (excluding costs of food sales at disposed sites), divided by (ii) revenue from food sales (excluding revenue from food sales at disposed sites) for the relevant period.

The following table presents Stonegate Group Gross Margin for Drinks (Ongoing) and Stonegate Group Gross Margin for Food (Ongoing) for the periods indicated:

	For the 52 weeks ended September 24, 2017	For the 53 weeks ended September 30, 2018	For the 52 weeks ended September 29, 2019	For the 16 weeks ended January 19, 2020	For the 28 weeks ended April 12, 2020[(1)]
Stonegate Group Gross Margin for Drinks (Ongoing)	73.5%	73.7%	74.8%	75.5%	75.3%
Stonegate Group Gross Margin for Food (Ongoing)	64.9%	65.6%	68.1%	72.0%	71.2%

(1) Reflects only Stonegate Group's gross margins and does not include gross margins for Ei and its subsidiaries.

Stonegate Group Gross Margin for Drinks (Ongoing) and Stonegate Group Gross Margin for Food (Ongoing) in a particular period are sensitive to the macroeconomic environment, levels of competitor discounts, wholesale prices and retail prices and our ability to pass any increases on to our customers, as well as our ability to realize cost synergies based on acquisitions of pubs that we complete. Stonegate Group Gross Margin for Drinks (Ongoing) and Stonegate Group Gross Margin for Food (Ongoing) were lower than expected due to the impact of the COVID-19 pandemic.

For the 28 weeks ended April 12, 2020 and the 16 weeks ended January 19, 2020, Stonegate Group Gross Margin for Drinks (Ongoing) and Stonegate Group Gross Margin for Food (Ongoing) have benefitted from the implementation of our revised discounting strategy and pricing initiatives discussed above. In particular, the Stonegate Group Gross Margin for Drinks (Ongoing) has benefitted during the 28 weeks ended April 12, 2020 and the 16 weeks ended January 19, 2020 from the higher emphasis in our drinks offering on premium, higher-value products, especially premium spirits. The Stonegate Group Gross Margin for Food (Ongoing) has benefitted from the new food supply contract entered into in February 2019, pursuant to which we have been able to obtain food supplies at lower pricing, thereby reducing our food supply cost.

For the 52 weeks ended September 29, 2019, Stonegate Group Gross Margin for Drinks (Ongoing) and Stonegate Group Gross Margin for Food (Ongoing) have benefitted from the implementation of our revised discounting strategy discussed above. In particular, the Stonegate Group Gross Margin for Drinks (Ongoing) has benefitted from the higher emphasis in our drinks offering on premium, higher-value products, especially premium spirits. The Stonegate Group Gross Margin for Food (Ongoing) has also benefitted from the new food supply contract entered into in 2019, pursuant to which we have been able to obtain food supplies at lower pricing, thereby reducing our food supply cost. For the 53 weeks ended September 30, 2018, Stonegate Group Gross Margin for Drinks (Ongoing) and Stonegate Group Gross Margin for Food (Ongoing) have benefitted from selectively increasing prices for some of our products following capital investment in some of our pubs and obtaining lower prices from some of our key suppliers due to our increased scale from acquisitions. For the 52 weeks ended September 24, 2017, Stonegate Group Gross Margin for Drinks (Ongoing) and Stonegate Group Gross Margin for Food (Ongoing) have benefitted from our ability to selectively increase prices for a number of our products following capital investment in certain of our pubs. Stonegate Group Gross Margin for Drinks (Ongoing) is sensitive to increases in alcohol duty. As with other managed pub operators, Stonegate Group Gross Margin for Drinks (Ongoing) is higher than Stonegate Group Gross Margins for Food (Ongoing).

Stonegate Group Adjusted EBITDA and Stonegate Group Adjusted EBITDA Margin

Stonegate Group Adjusted EBITDA represents Stonegate Group Pre-adjusted EBITDA excluding acquisition costs, restructuring and integration costs, discretionary management bonus payments under our prior management incentive program, operational restructuring and redundancy costs, costs and credits related to onerous leases, discretionary management fees, pension-related costs relating to our defined benefit pension scheme, losses on disposed/non-trading sites and costs such as legal and professional fees relating to tax enquiries and our management incentive program, consultancy fees paid to the previous directors of Fever Bars, certain dilapidation and repair costs and costs related to lease assignments for expired leases, which, unless otherwise specified, is presented on a 52-week basis in the case of the 53 weeks ended September 30, 2018 to enhance comparability, by deducting the 53rd week's sales, less operating costs for this week, assumed to be at a consistent margin for the last period (last four weeks to September 30, 2018), less the wages for this week, assumed to be the wages as a consistent percentage of revenue for the last period, and less the variable operating expenses for this week, assumed to be one quarter of the last period costs. Key fixed costs, such as rents, business rates and salaries do not require adjustments because they are annual costs. Stonegate Group Adjusted EBITDA Margin represents Stonegate Group Adjusted EBITDA divided by Stonegate Group's historical revenue. For purposes of this calculation, we have used Stonegate Group's historical revenue and Stonegate Group Adjusted EBITDA, in each case, for a 52-week period in the case of the 53 weeks ended September 30, 2018 to enhance comparability. See "Summary—Stonegate Group's Summary Historical and Pro Forma Financial and Other Information—Certain non-IFRS financial information."

Stonegate Group Adjusted EBITDA and Stonegate Group Adjusted EBITDA Margin for the 28 weeks ended April 12, 2020, reflect Ei Group's results from March 3, 2020, when it was acquired.

We have been successful in consistently increasing Stonegate Group Adjusted EBITDA and in maintaining Stonegate Group Adjusted EBITDA Margins other than for the periods impacted by the COVID-19 pandemic. The following table presents Stonegate Group Adjusted EBITDA and Stonegate Group Adjusted EBITDA Margin for the periods indicated:

						Excluding the impact of IFRS 16			Excluding the impact of IFRS 16
	For the 52 weeks ended September 24, 2017	For the 53 weeks ended September 30, 2018	For the 52 weeks ended September 29, 2019	For the 16 weeks ended January 20, 2019	For the 16 weeks ended January 19, 2020	For the 16 weeks ended January 19, 2020	For the 28 weeks ended April 14, 2019	For the 28 weeks ended April 12, 2020(2)	For the 28 weeks ended April 12, 2020(2)
Stonegate Group Adjusted EBITDA (£ in millions)	103	112(1)	134	39	65	46	68	93	58
Stonegate Group Adjusted EBITDA Margin	14.8%	14.7%(1)	15.7%	15.1%	23.3%	16.5%	15.0%	20.6%	12.8%

(1) Presented on a 52-week basis to enhance comparability.
(2) Includes the results of Ei and its subsidiaries for the period from March 3, 2020 to April 12, 2020.

Stonegate Group Adjusted EBITDA for the 28 weeks ended April 12, 2020 increased to £93 million from £68 million for the 28 weeks ended April 14, 2019 and Stonegate Group Adjusted EBITDA Margin for the 28 weeks ended April 12, 2020 increased to 20.6% from 15.0% for the 28 weeks ended April 14, 2019, primarily due to the consolidation of Ei Group Underlying EBITDA within our results for the period from March 3, 2020 to April 12, 2020 (£11 million, excluding the impact of IFRS 16) and the impact of IFRS 16 (£35 million). This increase was partially offset by the impact of the COVID-19 pandemic and the occurrence of Storm Ciara and Storm Dennis a week apart in February 2020 that fell over weekends in both instances.

Stonegate Group Adjusted EBITDA for the 16 weeks ended January 19, 2020 increased to £65 million from £39 million for the 16 weeks ended January 20, 2019 and Stonegate Group Adjusted EBITDA Margin for the 16 weeks ended January 19, 2020 increased to 23.4% from 15.1% for the 16 weeks ended January 20, 2019, primarily due to the impact of IFRS 16. Stonegate Group Adjusted EBITDA (excluding the impact of IFRS 16) for the 16 weeks ended January 19, 2020 increased to £46 million from £39 million for the 16 weeks ended January 20, 2019 and Stonegate Group Adjusted EBITDA Margin (excluding the impact of IFRS 16) for the 16 weeks ended January 19, 2020 increased to 16.5% from 15.1% for the 16 weeks ended January 20, 2019, primarily due to an increase in Stonegate Group Drink Sales Growth (Like for Like) without a corresponding increase in costs, driven by the positive impact of key sporting events such as the Rugby World Cup and our ability to capitalize on key revenue generating periods such as the Christmas season, which resulted in a higher Stonegate Group Adjusted EBITDA for this period.

Stonegate Group Adjusted EBITDA for the 52 weeks ended September 29, 2019 increased to £134 million from £112 million for the 53 weeks ended September 30, 2018 and Stonegate Group Adjusted EBITDA Margin for the 52 weeks ended September 29, 2019 increased to 15.7% from 14.7% for the 53 weeks ended September 30, 2018, primarily due to higher margins achieved on our drink sales and food sales, as well as efficiencies resulting from our labor management program which provides for effective deployment of labor in our sites, among others things, based on sales projection, which was partially offset by higher costs relating to increases in the National Living Wage and the National Minimum Wage.

Stonegate Group Adjusted EBITDA for the 53 weeks ended September 30, 2018 (but presented on a 52-week basis for comparability) increased to £112 million from £103 million for the 52 weeks ended September 24, 2017 and Stonegate Group Adjusted EBITDA Margin for the 53 weeks ended September 30, 2018 (but presented on a 52-week basis for comparability) decreased marginally to 14.7%

from 14.8% for the 52 weeks ended September 24, 2017, primarily due to higher costs relating to increases in the National Living Wage, the National Minimum Wage, business rates and alcohol duty, which was partially offset by the impact of our pricing initiatives that have allowed us to better analyze product performance at our pubs as well as efficiencies resulting from our labor management program.

Stonegate Group Cash Conversion

Stonegate Group Cash Conversion represents Stonegate Group Adjusted EBITDA minus Stonegate Group Maintenance Capital Expenditure, divided by Stonegate Group Adjusted EBITDA. We believe Stonegate Group Cash Conversion reflects the proportion of Stonegate Group Adjusted EBITDA that readily converts to cash as we manage our capital expenditure program.

The following table presents Stonegate Group Cash Conversion for the periods indicated:

						Excluding the impact of IFRS 16			Excluding the impact of IFRS 16
	For the 52 weeks ended September 24, 2017	For the 53 weeks ended September 30, 2018	For the 52 weeks ended September 29, 2019	For the 16 weeks ended January 20, 2019	For the 16 weeks ended January 19, 2020	For the 16 weeks ended January 19, 2020	For the 28 weeks ended April 14, 2019	For the 28 weeks ended April 12, 2020	For the 28 weeks ended April 12, 2020
Stonegate Group Adjusted EBITDA (£ in millions)	103	112(1)	134	39	65	46	68	93(2)	58(2)
Stonegate Group Maintenance Capital Expenditure (£ in millions)	35	37	36	14	13	13	17	22(3)	22(3)
Stonegate Group Cash Conversion	66.5%	67.2%	72.8%	64.1%	80.0%	71.7%	75.0%	76.3%	62.1%

(1) Presented on a 52-week basis to enhance comparability.

(2) Includes the results of Ei and its subsidiaries for the period from March 3, 2020 to April 12, 2020.

(3) Includes Ei Group Letting and Maintenance Capital Expenditure for the period from March 3, 2020 to April 12, 2020.

Stonegate Group Cash Conversion for the 28 weeks ended April 12, 2020 increased to 76.3% from 75.0% for the 28 weeks ended April 14, 2019, primarily due to the impact of IFRS 16, as a result of which Stonegate Group Adjusted EBITDA increased by £35 million. Stonegate Group Cash Conversion (excluding the impact of IFRS 16) for the 28 weeks ended April 12, 2020 decreased to 62.1% from 75.0% for the 28 weeks ended April 14, 2019, primarily due to a decrease in the Stonegate Group Adjusted EBITDA (excluding the impact of IFRS 16) from £68 million for the 28 weeks ended April 14, 2019 to £58 million for the 28 weeks ended April 12, 2020 and an increase in Stonegate Group Maintenance Capital from £17 million for the 28 weeks ended April 14, 2019 to £22 million for the 28 weeks ended April 12, 2020.

Stonegate Group Cash Conversion for the 16 weeks ended January 19, 2020 increased to 80.0% from 64.1% for the 16 weeks ended January 20, 2019, primarily due to the impact to IFRS 16, as a result of which Stonegate Group Adjusted EBITDA increased by £19 million. Stonegate Group Cash Conversion (excluding the impact of IFRS 16) for the 16 weeks ended January 19, 2020 increased to 71.7% from 64.1% for the 16 weeks ended January 20, 2019, primarily due to an increase in the Stonegate Group Adjusted EBITDA (excluding the impact of IFRS 16) from £39 million for the 16 weeks ended January 20, 2019 to £46 million for the 16 weeks ended January 19, 2020.

Stonegate Group Cash Conversion for the 52 weeks ended September 29, 2019 increased to 72.8% from 67.2% for the 53 weeks ended September 30, 2018, primarily due to an increase in the Stonegate Group Adjusted EBITDA from £112 million for the 53 weeks ended September 30, 2018 (but presented on a 52-week basis for comparability) to £134 million for the 52 weeks ended September 29, 2019.

Stonegate Group Cash Conversion for the 53 weeks ended September 30, 2018 (but presented on a 52-week basis for comparability) increased to 67.2% from 66.5% for the 52 weeks ended September 24, 2017, primarily due to an increase in the Stonegate Group Adjusted EBITDA from £103 million for the 52 weeks ended September 24, 2017 to £112 million for the 53 weeks ended September 30, 2018 (but presented on a 52-week basis for comparability).

Stonegate Group Return on Investment

Stonegate Group Return on Investment represents, for all pubs invested during the 156 weeks preceding the date on which we present the Stonegate Group Return on Investment, the difference between the annualized (on a 52-week basis) aggregate weekly average post-investment Stonegate Group Pre-adjusted EBITDA (from the first full four-week period after the re-opening of such pubs) and the 52-week pre-investment Stonegate Group Pre-adjusted EBITDA of those pubs (to the end of the last full four-week period), divided by the aggregate Stonegate Group Investment Capital Expenditure invested in these pubs over the same 156 weeks. Where a pub has traded for less than 52 weeks post-investment, we have not taken it into account when calculating the Stonegate Group Return on Investment. Pubs where we have not made a Stonegate Group Investment Capital Expenditure in the past 156 weeks are classed as uninvested. Stonegate Group Return on Investment for the 156 weeks ended April 12, 2020, includes only Stonegate Group managed pubs and does not include the pubs of Ei or its subsidiaries.

For more information concerning how this metric is calculated, see "Presentation of Financial and Other Information—Non-IFRS Financial Information."

The Stonegate Group Return on Investment has been consistently high in recent years and was 35.4%, 35.3%, 35.7%, 35.9% and 23.8% for the 156 weeks ended September 24, 2017, the 156 weeks ended September 30, 2018, the 156 weeks ended September 29, 2019, the 156 weeks ended January 19, 2020 and the 156 weeks ended April 12, 2020, respectively.

In respect of our 103 invested sites during the 52 weeks ended September 25, 2016, we noted a Stonegate Group Average Annual Pre-adjusted EBITDA Increase from Investment of £69,000 in the first year post-investment.

In respect of our 138 invested sites during the 52 weeks ended September 24, 2017, we noted a Stonegate Group Average Annual Pre-adjusted EBITDA Increase from Investment of £73,000 in the first year post-investment.

Our 100 invested sites during the 53 weeks ended September 30, 2018 are showing a similar trend with a Stonegate Group Average Annual Pre-adjusted EBITDA Increase from Investment of £91,000 in the first year post-investment.

The Stonegate Group Return on Investment for sites in which we have made a second round of capital investment ("Second-Cycle Invested Sites") remains strong. For the 156 weeks ended April 12, 2020, the Stonegate Group Return on Investment from our Second-Cycle Invested Sites was 27.7%, with the Stonegate Group Return on Investment from our Second-Cycle Invested Sites that underwent a change of format being 26.7% and the Stonegate Group Return on Investment from our Second-Cycle Invested Sites that continued in the same format being 28.4%. For the 156 weeks ended January 19, 2020, the Stonegate Group Return on Investment from our Second-Cycle Invested Sites was 43.1%, with the Stonegate Group Return on Investment from our Second-Cycle Invested Sites that underwent a change of format being 40.7% and the Stonegate Group Return on Investment from our Second-Cycle Invested Sites that continued in the same format being 44.7%. For purposes of this discussion, the "Stonegate Group Return on Investment from Second-Cycle Invested Sites" means the Stonegate Group Return on Investment from sites where we have made investment capital expenditure twice since it has been under our ownership.

The Stonegate Group Return on Investment for each of the periods indicated is primarily driven by the aggregate Stonegate Group Investment Capital Expenditure invested in these pubs during the period for which the Stonegate Group Return on Investment is presented.

Liquidity and Capital Resources

Liquidity

We have significant debt service obligations. As of April 12, 2020, after giving effect to the issuance of the Notes and the application of the proceeds therefrom, we would have had total third-party debt of £3,178 million (excluding a lease liability of £778 million as of April 12, 2020 calculated in accordance with IFRS 16). As of April 12, 2020, our Revolving Facilities were drawn in an amount of £200.0 million. Effective July 13, 2020, the committed financing under the Revolving Facilities Agreement was increased to £250 million (the additional £50 million of committed capital available for a 23-month period). See "Capitalization."

For a description of our current liquidity position, see "Summary—Recent Developments—Liquidity Update." As a result of the economic uncertainty resulting from the effects of the COVID-19 pandemic, including closure of our pubs for the period from March 20, 2020 to July 4, 2020, we expect our cash flow from operations to be significantly lower than in the past for the third quarter of 2020 and the financial year 2020, and potentially for other future periods. In response to the closure of our pubs on March 20, 2020, we adopted swift measures to significantly reduce cash outflows by reducing our operating cost and implementing cash control measures, with the aim of maximizing our liquidity position. For a discussion of the cost control measures that we implemented in response to COVID-19, our strategic options to manage cash outflows and preserve and build liquidity going forward and our estimate of reopening costs and the economics upon reopening, see "Summary—Recent Developments—Impact of COVID-19."

We depend upon our operations to generate strong cash flows to support our operating activities, supply capital to finance our operations and growth, make capital expenditure and manage our debt levels. The continuing economic disruption caused by the COVID-19 pandemic, and the resulting restrictions and preventive measures, have adversely affected our ability to generate sufficient cash flows from operations and could adversely affect our ability to make future interest and other payments with respect to our indebtedness and other obligations. While we have taken several steps to preserve capital, increase liquidity and improve efficiency, described under "Summary—Recent Developments—Liquidity Update," our short-term liquidity needs are still significant, including funds necessary to pay for operating expenses and other expenditures, including certain payroll and related benefits, fixed costs associated with the operation of our pubs, interest and scheduled principal payments on our outstanding indebtedness, capital expenditures for renovations and maintenance at our pubs (to the extent not deferred) and corporate general and administrative expenses. Since we generally are unable to decrease these costs significantly or rapidly when demand for our pubs decreases, any resulting decline in our revenues and cash flows, particularly in the event of a future resurgence of the COVID-19 pandemic, may have a greater adverse effect on our cash flow and liquidity.

The Indenture governing the New Notes offered hereby, the Senior Secured Term Facilities Agreement, the Second Lien Facility Agreement and the Revolving Facilities Agreement, as well as the trust deeds governing the Unique Securitized Notes, contain covenants significantly restricting our ability to, among other things:

- incur or guarantee additional indebtedness and issue certain preferred stock;
- create or incur certain liens;
- make certain payments, including dividends or other distributions, with respect to the shares of the Parent;
- prepay or redeem subordinated debt or equity;
- make certain investments;
- create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to and on the transfer of assets to the Parent or its restricted subsidiaries;
- sell, lease or transfer certain assets including stock of restricted subsidiaries;
- engage in certain transactions with affiliates;
- enter into unrelated businesses or engage in prohibited activities;
- consolidate or merge with other entities;
- impair the security interests for the benefit of the holders of the Notes; and
- amend certain documents.

Each of the covenants is subject to a number of important exceptions and qualifications. These covenants could limit our ability to finance our future operations and capital needs.

As discussed above, our principal source of liquidity on an ongoing basis is our operating cash flow. Our ability to generate cash depends on our future operating performance, which in turn depends on general economic, financial, industry and other factors, many of which are beyond our control, as well as the other factors discussed in "Risk Factors." In addition, we have access to the Revolving Facilities to service our working capital and general corporate needs. The availability of this facility is dependent upon conditions, including compliance with financial covenants relating to our consolidated leverage ratio and other covenants as described further under "Description of Other Indebtedness—Revolving Facilities

Agreement." Although we believe that our expected cash flows from operations, together with available borrowings, will be adequate to meet our anticipated liquidity and debt service needs, we cannot assure you that our business will generate sufficient cash flows from operations or that future debt and equity financing will be available to us in an amount sufficient to enable us to pay our debts when due, including the Notes, or to fund our other liquidity needs.

We believe that the potential risks to our liquidity include:

- a reduction in operating cash flows due to a lowering of net income from our operations, which could be due to downturns in our performance or the industry or the UK economy as a whole;
- a reduction in operating cash flows due to prolonged periods of closure or restrictions in the operations of our pubs due to COVID-19 or other health emergencies;
- inability to access capital;
- adverse working capital developments;
- exposure to increased interest rates in relation to that portion of our borrowings which bears interest at a variable rate; and
- any need to fund higher than anticipated capital expenditures.

If our future cash flows from operations and other capital resources (including borrowings under our Revolving Facilities) are insufficient to pay our obligations as they mature or to fund our liquidity needs, we may be forced to:

- reduce or delay our business activities and capital expenditure;
- reduce or delay our planned acquisitions;
- sell assets;
- obtain additional debt or equity capital; or
- restructure or refinance all or a portion of our debt, including the Notes, on or before maturity.

We cannot assure you that we would be able to accomplish any of these alternatives on a timely basis or on satisfactory terms, if at all. In addition, the terms of our debt, after giving effect to the issuance of the Notes and the application of the proceeds therefrom, including the Notes, the Senior Secured Term Facilities, the Second Lien Facility, the Revolving Facilities and the Unique Securitized Notes, limit our ability to pursue any of these alternatives, as may the terms of any future debt. We anticipate that our high leverage will continue for the foreseeable future. Our high level of debt may have important negative consequences for you. For more information, see the sections entitled "Risk Factors," "Description of Other Indebtedness" and "Description of the Notes."

Cash Flows

The following table presents, for the periods indicated, our consolidated cash flows:

(£ in millions)	For the 52 weeks ended September 24, 2017	For the 53 weeks ended September 30, 2018	For the 52 weeks ended September 29, 2019	For the 16 weeks ended January 20, 2019	For the 16 weeks ended January 19, 2020	For the 16 weeks ended April 14, 2019	For the 16 weeks ended April 12, 2020
Consolidated cash flow statement data							
Net cash flow from operating activities[(a)]	47	53	65	15	45	52	31
Net cash flow from investing activities[(a)]	(138)	(125)	(141)	(48)	(24)	(106)	(1,151)
Net cash flow from financing activities	65	83	69	12	(19)	48	1,405
Closing cash and cash equivalents	4	16	9	(5)	10	10	294

(a) We have restated net cash flow from operating activities and net cash flow from investing activities for the 28 weeks ended April 14, 2019 to reclassify a loan to Stonegate Holdings, the indirect parent company of the Parent, from net cash flow from operating activities to net cash flow from investing activities. The impact of the adjustment for the 28 weeks ended April 14, 2019 is an increase in net cash flow from operating activities (due to a decrease in "Changes in receivables") by £6 million and an increase in net cash outflow from investing activities ("Loan made to ultimate parent company") by £6 million. We expect to make the same adjustment for the 52 weeks ended September 29, 2019 when we prepare our annual report and consolidated financial statements as of and for the 52 weeks ended September 27, 2020 and, accordingly, we have reflected that adjustment in the table above.

Net Cash Flow from Operating Activities

Our net cash flow from operating activities decreased by £21 million, from a net cash inflow of £52 million for the 28 weeks ended April 14, 2019 to a net cash inflow of £31 million for the 28 weeks ended April 12, 2020. This decrease was primarily due to the temporary closure of our pubs from March 20, 2020 pursuant to the COVID-19 pandemic and the decline in our cash flow from operating activities due to Storm Ciara and Storm Dennis, which were both powerful and long-lived extratropical cyclones that occurred a week apart in February 2020 and fell over weekends in both instances. This decrease was partially offset by the consolidation of Ei Group's net cash flow from operating activities within our results for the period from March 3, 2020 to April 12, 2020 (£7 million) and the application of IFRS 16 pursuant to which the principal portion of our operating leases of £23 million was reclassified from net cash flow from operating activities to net cash flow from financing activities. This decrease was also partially due to the reclassification of a loan to Stonegate Holdings, the indirect parent company of the Parent, from net cash flow from operating activities to net cash flow from investing activities for the 28 weeks ended April 14, 2019, which resulted in an increase in net cash flow from operating activities (due to a decrease in "Changes in receivables") by £6 million for the 28 weeks ended April 14, 2019.

Our net cash flow from operating activities increased by £30 million, from a net cash inflow of £15 million for the 16 weeks ended January 20, 2019 to a net cash inflow of £45 million for the 16 weeks ended January 19, 2020. This increase was primarily due to the application of IFRS 16 pursuant to which the principal portion of our operating leases of £17 million was reclassified from net cash flow from operating activities to net cash flow from financing activities. In addition, our operating cash flow for the prior comparable period was impacted by payment of discretionary management bonuses to certain of our senior managers during the 16 weeks ended January 20, 2019 under our prior management incentive program with no such payments being made during the 16 weeks ended January 19, 2020.

Our net cash flow from operating activities increased by £12 million, from a net cash inflow of £53 million for the 53 weeks ended September 30, 2018 to a net cash inflow of £65 million for the 52 weeks ended September 29, 2019. This increase was primarily due to the favorable impact on our working capital requirements on account of there being one less week, as well as the period end date being prior to a quarter/month end date, in the 52 weeks ended September 29, 2019 compared to the 53 weeks ended September 30, 2018. Typically, we pay rent expenses at the end of each quarter and supplier payments at the end of each month. During the prior comparable period of the 53 weeks ended September 30, 2018, which contained one additional quarter- and month-end date compared to the 52 weeks ended September 29, 2019, we paid rent expenses for one additional quarter and supplier payments for one additional month compared to the 52 weeks ended September 29, 2019. This resulted in higher working capital requirements for the 53 weeks ended September 30, 2018 and a consequent increase in our net cash flow from operating activities for the 52 weeks ended September 29, 2019. This increase was also due to the reclassification of a loan to Stonegate Holdings, the indirect parent company of the Parent, from net cash flow from operating activities to net cash flow from investing activities for the 52 weeks ended September 29, 2019, which resulted in an increase in net cash flow from operating activities (due to a decrease in "Changes in receivables") by £6 million for the 52 weeks ended September 29, 2019.

Our net cash flow from operating activities increased by £6 million, from a net cash inflow of £47 million for the 52 weeks ended September 24, 2017 to a net cash inflow of £53 million for the 53 weeks ended September 30, 2018. The increase primarily resulted from improved trading performance at our pubs and an additional week of trading during the 53 weeks ended September 30, 2018.

Net Cash Flow from Investing Activities

Our net cash flow from investing activities increased by £1,045 million, from a net cash outflow of £106 million for the 28 weeks ended April 14, 2019 to a net cash outflow of £1,151 million for the 28 weeks ended April 12, 2020. This increase was primarily due to the payments made during the 28 weeks ended April 12, 2020 to finance the Transaction.

Our net cash flow from investing activities decreased by £24 million, from a net cash outflow of £48 million for the 16 weeks ended January 20, 2019 to a net cash outflow of £24 million for the 16 weeks ended

January 19, 2020. This decrease was primarily due to payments made during the 16 weeks ended January 20, 2019 to acquire Fever Bars with no similar payments made during the 16 weeks ended January 19, 2020.

Our net cash flow from investing activities increased by £16 million, from a net cash outflow of £125 million for the 53 weeks ended September 30, 2018 to a net cash outflow of £141 million for the 52 weeks ended September 29, 2019. This increase primarily resulted from payments made to acquire pubs pursuant to the Fever Bars Acquisition, the First Novus Acquisitions and the Second Novus Acquisitions as well as a reduction in sale proceeds due to fewer pub disposals during the 52 weeks ended September 29, 2019. This increase was also due to the reclassification of a loan to Stonegate Holdings, the indirect parent company of the Parent, from net cash flow from operating activities to net cash flow from investing activities for the 52 weeks ended September 29, 2019, which resulted in an increase in net cash outflow from investing activities ("Loan made to ultimate parent company") by £6 million for the 52 weeks ended September 29, 2019.

Our net cash flow from investing activities decreased by £13 million, from a net cash outflow of £138 million for the 52 weeks ended September 24, 2017 to a net cash outflow of £125 million for the 53 weeks ended September 30, 2018. This decrease resulted from higher expenditures on acquired pubs for the 52 weeks ended September 24, 2017 (Stonegate Group Investment Capital Expenditure of £48 million in the 52 weeks ended September 24, 2017), compared to the capital expenditure on acquired pubs during the 53 weeks ended September 30, 2018 (Stonegate Group Investment Capital Expenditure of £35 million in the 53 weeks ended September 30, 2018).

Net Cash Flow from Financing Activities

Our net cash flow from financing activities increased by £1,357 million, from a net cash inflow of £48 million for the 28 weeks ended April 14, 2019 to a net cash inflow of £1,405 million for the 28 weeks ended April 12, 2020. This increase was primarily due to the financing of the Transaction, consisting of the proceeds received pursuant to the share issuance to Midco and borrowings under the Senior Bridge Facilities Agreement, Revolving Facilities Agreement, the Senior Term Facilities Agreement and the Second Lien Facility Agreement, offset by the repayment of certain debt in connection with the Transaction.

Our net cash flow from financing activities decreased by £31 million, from a net cash inflow of £12 million for the 16 weeks ended January 20, 2019 to a net cash outflow of £19 million for the 16 weeks ended January 19, 2020. This decrease was primarily due to the application of IFRS 16 pursuant to which the principal portion of our operating leases of £17 million was reclassified from net cash flow from operating activities to net cash flow from financing activities. In addition, we received £15 million in proceeds pursuant to a share issuance to Midco during the 16 weeks ended January 20, 2019 with no similar cash inflow received during the 16 weeks ended January 19, 2020.

Our net cash flow from financing activities decreased by £14 million, from a net cash inflow of £83 million for the 53 weeks ended September 30, 2018 to a net cash inflow of £69 million for the 52 weeks ended September 29, 2019. This decrease was primarily due to the repayment of the borrowings made under a senior secured bridge facility agreement entered into by us in July 2018 to initially finance the Be At One Acquisition, the First Novus Acquisitions, the Fever Bars Acquisition and the Second Novus Acquisitions with the proceeds of the offering of £150 million in aggregate principal amount of floating rate notes issued by us in February 2019, partially offset by £15 million of share issuance proceeds received pursuant to a share issuance by the Parent to Midco in December 2018.

Our net cash flow from financing activities increased by £18 million, from a net cash inflow of £65 million for the 52 weeks ended September 24, 2017 to a net cash inflow of £84 million for the 53 weeks ended September 30, 2018. This change was primarily due to our borrowings made under our old revolving credit facility during the 53 weeks ended September 30, 2018 (£69 million as of September 30, 2018 compared to nil as of September 24, 2017).

Stonegate Group Capital Expenditure

The following table presents, for the periods indicated, gross Stonegate Group Capital Expenditure:

(£ in millions)	For the 52 weeks ended September 24, 2017	For the 53 weeks ended September 30, 2018	For the 52 weeks ended September 29, 2019	For the 16 weeks ended January 20, 2019	For the 16 weeks ended January 19, 2020	For the 28 weeks ended April 14, 2019	For the 28 weeks ended April 12, 2020(1)
Stonegate Group Investment Capital Expenditure	48	35	46	14	13	28	30
Stonegate Group Maintenance Capital Expenditure	35	37	36	11	12	17	22
of which, capital expenditure in relation to certain business projects improvements across our estate	*4*	*5*	*8*	*2*	*2*	*3*	*4*
Total Stonegate Group Investment and Maintenance Capital Expenditure	**82**	**71**	**83**	25	25	45	52
Stonegate Group Acquisition Capital Expenditure	66	65	57	23	—	58	1,266
of which, capital expenditure to acquire trading sites which we formerly leased	—	—	—	—	—	—	*2*
Total Stonegate Group Capital Expenditure	**149**	**136**	**140**	**48**	**25**	**103**	**1,318**
Stonegate Group Capital Expenditure as a percentage of total Stonegate Group's revenue	**21.3%**	**17.6%**	**16.4%**	**19.0%**	**9.0%**	**22.7%**	**292%**

(1) Includes capital expenditures made in respect of Ei and its subsidiaries for the period from March 3, 2020 to April 12, 2020. For a discussion regarding capital expenditure made by Ei Group during the period from December 29, 2019 to March 2, 2020, see "Ei Group Management's Discussion and Analysis of Financial Condition and Results of Operation—Liquidity and Capital Resources—Ei Group Capital Expenditure."

Stonegate Group's capital expenditures have primarily been made in relation to the acquisition of trading sites, real estate refurbishments and upgrades, the integration of our newly acquired pubs into our existing brands and formats, the refurbishment of newly acquired pubs and investment in IT infrastructure. Excluding Stonegate Group Acquisition Capital Expenditure, capital expenditure increased to 9.7% of revenue for the 52 weeks ended September 29, 2019 compared to 9.2% of revenue for the 53 weeks ended September 30, 2018. Stonegate Group Maintenance Capital Expenditure during the 52 weeks ended September 29, 2019 was primarily driven by maintenance capital expenditure in relation to certain business projects improvements across our estate such as the integration of machines that process card payments at our pubs with our cash registers and certain IT enhancement projects.

During the 28 weeks ended April 12, 2020, Stonegate Group Investment Capital Expenditure was made at 74 sites which included 27 pubs in our Proper Pubs format and 10 pubs in our Be At One format. These investment were made prior to the temporary closure of our pubs on March 20, 2020 due to COVID-19 pandemic.

During the 16 weeks ended January 19, 2020, Stonegate Group Investment Capital Expenditure was made at 40 sites which included investments in 5 pubs acquired pursuant to the Be At One Acquisition, 5 pubs in our Town Pub and Kitchen format and 3 pubs in our Slug & Lettuce format. During the 52 weeks ended September 29, 2019, Stonegate Group Investment Capital Expenditure was made at 140 sites which included investments in, five pubs acquired pursuant to the Fever Bars Acquisition, ten pubs acquired pursuant to the First Novus Acquisition, three pubs acquired pursuant to the Second Novus Acquisition, and within our Proper Pubs format and 36 pubs and within our Venues format 23 pubs. For the 52 weeks ended September 29, 2019, 33.1% of capital expenditure constituted of Stonegate Group Investment Capital Expenditure, 26.0% of capital expenditure constituted of Stonegate Group Maintenance Capital Expenditure and 41.0% of capital expenditure constituted of Stonegate Group Acquisition Capital Expenditure.

Due to the impact of the COVID-19 pandemic and our efforts to manage cash outflows and preserve and build liquidity, our ability to make capital expenditures may be limited for some time. Currently, we intend to keep discretionary spending at a minimum, and until our cash reserves recover to desirable levels, we plan to make capital expenditure through a careful and considered approach. In terms of investment capital expenditure, we plan to complete the projects that we had started prior to the closure of our pubs due to the COVID-19 pandemic. In relation to our publican partnership pubs, we also intend to complete investments in pubs where we had agreed with tenants to do so and in pubs that we have taken back, or agreed to take back, from tenants in the ordinary course. Based on our current estimates, we expect to make investment capital expenditures of approximately £20 million for the period between April 2020 and September 2020. In terms of maintenance capital expenditure, for the months of July and August 2020, we intend to make business critical maintenance capital expenditures only. Based on our current estimates, from September to January 2020, we expect to get to 75%-85% of our normal maintenance capital expenditure levels and for the period July 2020 to June 2021, we expect to spend approximately £60 million on maintenance capital expenditure. In light of the impact of COVID-19 and resulting uncertainties, the estimates provided above are subject to ongoing review and may change based on how circumstances evolve over time. In addition, these estimates may change based on changes to our business plan as we continue to evaluate our strategies in relation to the Transaction. We currently plan to fund our future capital expenditures with cash from operating activities.

Contractual Obligations

The following table summarizes our material contractual obligations as of September 29, 2019, as adjusted to give effect to the Transaction Financing and the application of the proceeds therefrom. The following table excludes any future interest payments that we would be required to make. The table also excludes lease obligations and related interest and any payments under any hedging agreements and related interest. For a summary of our actual contractual obligations as of September 29, 2019, please see Note 19 of our consolidated financial statements as of and for the 52 weeks ended September 29, 2019 included elsewhere in this Offering Memorandum.

	Within one year	Between one and two years	Between two and five years	More than five years	Total
(£ in millions)					
Existing Fixed Rate Notes	—	—	500	—	500
New Notes offered hereby	—	—	1,223	—	1,223
Senior Term Facilities	—	—	—	180	180
Second Lien Facility	—	—	—	400	400
Revolving Facilities	—	—	200	—	200
Unique Securitized Notes[(1)]	19	58	288	326	691
Total[(2)]	**19**	**58**	**2,211**	**906**	**3,194**

(1) Repayment schedule as of September 30, 2019.
(2) Assumes that the Revolving Facilities will be fully drawn.

As of April 12, 2020, our lease liability commitments under IFRS 16 were as follows:

	Within one year	Between one and two years	Between two and five years	More than five years	Total
(£ in millions)					
Lease liabilities	55	36	113	574	778

Post-Retirement Benefits

As of April 12, 2020, we operate two defined benefit pension schemes providing benefits based on final pensionable salary. The assets of the schemes are held separately from those of Stonegate Group.

Defined benefit pension scheme assets are measured using market values and these assets have been updated to reflect their market value as of April 12, 2020.

Differences between the expected return on assets and actual return on assets have been recognized as an actuarial gain or loss in our consolidated cash flow statement.

We also participate in three defined contribution pension schemes for the benefit of certain employees. The assets of the schemes are held separately from those of Stonegate Group in independently administered funds. The amount charged to the income statement represents the contributions payable to the schemes in respect of the accounting period.

Off-Balance Sheet Arrangements

As of April 12, 2020, we had no off-balance sheet arrangements. We may enter into new interest hedging arrangements to hedge our exposure to fluctuations in interest rates, primarily under the Revolving Facilities Agreement, the Senior Term Facilities Agreement and the Second Lien Facilities Agreement, or new currency hedging arrangements. In connection with the Offering, we intend to enter into interest rate and currency hedging in respect of the Floating Rate Notes. For information on our operating lease obligations, see "—Contractual Obligations."

Financial Risk Management

Our board of directors regularly reviews our financial requirements and the risks associated with them. We have summarized the principal risks arising from our current financial instruments below. See also Note 19 of our consolidated financial statements as of and for the 52 weeks ended September 29, 2019, included elsewhere in this Offering Memorandum.

Interest Rate Risk

We finance our operations through a combination of trading cash flows, bank borrowings and longer term notes. Borrowings under our Revolving Facilities Agreement, the Senior Term Facilities Agreement, Second Lien Facility Agreement and the Floating Rate Notes will bear floating rates of interest. We seek to minimize our cost of borrowings and reduce the impact of interest rate fluctuations, including through the entry into interest rate hedging agreements. In connection with the Offering, we intend to enter into interest rate hedging in respect of the Floating Rate Notes. For additional information on these activities, see "—Off-Balance Sheet Arrangements."

Liquidity Risk

We seek to manage financial risk to ensure sufficient liquidity is available to meet our foreseeable needs. We monitor the maturity of our financial liabilities to avoid the risk of shortage of funds and also place surplus funds on deposit so that they are available at short notice. See "—Liquidity and Capital Resources."

Currency Risk

All of our revenue and the majority of our costs are generated in pound sterling and involve little or no currency risk. We review our currency exposure on a continual basis and enter into hedges if we consider it necessary. However, the Floating Rate Notes will be denominated in euro and, in connection with the Offering, we intend to enter into currency hedging in respect of the Floating Rate Notes.

Credit Risk

Our principal financial assets are cash and cash equivalents, trade receivables and other receivables. The credit risk associated with 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 end of the relevant period. The credit risk associated with these is minimal. We have no significant concentration of credit risk.

Selected Significant Judgments and Estimates

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions in the application of accounting policies that affect reported amounts of assets, liabilities, revenues and expenses during an applicable period.

Management periodically evaluates its estimates and judgments 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 judgments about the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

IFRS 16 (*Leases)* was published on January 13, 2016 by the International Accounting Standard Board and Stonegate Group's began applying IFRS 16 beginning the 16 weeks ended January 19, 2020. Management is required to make certain judgments, estimates and assumptions in connection with the adoption of IFRS 16. See "—Changes in Accounting Policy." The other estimates and assumptions that have the most significant effect on the amounts recognized in the financial statements are discussed below. For a more comprehensive explanation of the accounting policies used in the preparation of our consolidated financial statements, refer to Note 1 of our consolidated financial statements as of and for the 52 weeks ended September 29, 2019, included elsewhere in this Offering Memorandum.

Investment Property

Beginning the 28 weeks ended April 12, 2020, we separately recognize investment property on our balance sheet. These consist of certain properties held as commercial leases within our Commercial Properties segment. Properties held as investment property are measured at fair value reflecting market conditions as of the balance sheet date. Gains and losses arising from changes in the fair value of investment property are recognized in the income statement in the period in which they arise. Fair values are determined based on an annual revaluation by external valuers or employees who are professionally qualified to carry out such valuations. Transfers are to be made to or from investment property when there is change of use evidenced by a change in the lease terms. These are discussed under Note 1 to our financial statements as of and for the 28 weeks ended April 12, 2020 included elsewhere in this Offering Memorandum.

Non-current Assets Held for Sale

Beginning the 28 weeks ended April 12, 2020, we separately recognize licensed land and buildings, investment property and operating lease intangibles identified for disposal, as non-current assets held for sale on our balance sheet. Such assets are held at the lower of carrying value on transfer to non-current assets held for sale, as assessed at the time of transfer and fair value less costs to dispose. The fair value less costs to dispose is based on the net estimated realizable disposal proceeds which is provided by third party property agents who have been engaged to sell the properties. Such assets must be available for immediate sale in their present condition and the sale should be highly probable. These conditions are considered met when our management is committed to their sale, the property or lease is actively marketed and the sale is expected to occur within one year. These are discussed under Note 1 to our financial statements as of and for the 28 weeks ended April 12, 2020 included elsewhere in this Offering Memorandum.

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 discussed under Note 11 to our financial statements as of and for the 52 weeks ended September 29, 2019 included elsewhere in this Offering Memorandum.

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 to our financial statements as of and for the 52 weeks ended September 29, 2019 included elsewhere in this Offering Memorandum. Any changes in these assumptions could impact the carrying amounts of retirement benefit assets/ liabilities.

Business Combinations

We identify separate assets and liabilities upon acquisition and recognize 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 1 to our financial statements as of and for the 52 weeks ended September 29, 2019 included elsewhere in this Offering Memorandum 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.

EI GROUP MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of the financial condition and results of operations of Ei Group for the periods set forth below only. Accordingly, all references to Ei Group in respect of the historical consolidated financial information in this discussion are to Ei Group on a consolidated basis. Ei Group's financial information was consolidated into Stonegate Group's financial information from and including March 3, 2020, the date on which the Transaction was completed. Accordingly, the discussion below is not representative of Ei Group's financial performance after the periods discussed. In particular, the discussion below does not reflect the actual or expected impact of the COVID-19 pandemic on the results of Ei Group, which occurred after the periods discussed below. For a discussion of Stonegate Group's results as of and for the 28 weeks ended April 12, 2020, and the impact of the COVID-19 pandemic on Stonegate Group, see "Stonegate Group Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Summary—Recent Developments—Impact of COVID-19."

You should read this discussion in conjunction with Ei Group's historical consolidated financial statements included elsewhere in this Offering Memorandum, as well as the "Ei Group's Selected Historical Consolidated Financial Information." The following presentation and analysis contains forward-looking statements that involve risks and uncertainties. For the reasons explained under "Forward-Looking Statements" and "Risk Factors" and elsewhere in this Offering Memorandum, Ei Group's, and following the Transaction, our future results may differ materially from those expected or implied in these forward looking statements.

Some of the measures used in this discussion and analysis are not measurements of financial performance under IFRS and have important limitations as analytical tools. You should not consider them in isolation or as substitutes for analysis of Ei Group's results as reported under IFRS. See "Certain Definitions" and "Presentation of Financial and Other Information."

Overview

Ei Group has three reportable segments: Ei Group Publican Partnerships, Ei Group Managed Pubs and Ei Group Commercial Properties. Ei Group Publican Partnerships represents its leased and tenanted business. Ei Group Managed Pubs includes its Managed Operations that are 100% owned by Ei Group and Managed Investments that are joint ventures with experienced retail partners. Ei Group Commercial Properties represents its free-of-tie and non-pub property business.

The Ei Group Publican Partnerships business has been Ei Group's core operation for the periods under review below, generating 67.3% of Ei Group's revenue for the year ended September 30, 2019 and 63.2% of Ei Group's revenue for the 13 weeks ended December 28, 2019. Ei Group Publican Partnerships' trading performance has been maintained for six consecutive financial years, driven by the deployment of capital into growth opportunities across the estate and the provision of a substantial range of services and support to its publicans. The fastest growing part of Ei Group's business is Ei Group Managed Pubs. Ei Group had 494 managed pubs as of December 28, 2019 (compared to 392 managed pubs as of December 29, 2018). Ei Group has transferred in the region of 100 to 120 pubs a year to its managed pubs segment from its Ei Group Publican Partnerships segment, usually supported by significant investment in the pub, delivering increased diversity and scale of earnings. As Ei Group has become a more accomplished managed house operator with greater operational knowledge and capability, it has been able to bring more examples of best practices to its leased and tenanted pub business, as well as to utilize its purchasing scale to greater effect to help its publicans increase their sales and reduce their costs.

Between October 1, 2014 and September 30, 2018, Ei Group had substantially grown its commercial properties business, primarily through the transfer of pubs from its tied Ei Group Publican Partnerships business to pubs operating on free-of-tie agreements, including those which have elected to take up the Market Rent Only (MRO) option under the Pubs Code. This has enabled them to monetize these assets through the disposal of many of them.

Factors Affecting the Comparability of Ei Group's Results of Operations

Disposals and Repositioning of Portfolio

As discussed above, during the periods under review, Ei Group has disposed of a significant number of pubs and reallocated pubs from its Ei Group Publican Partnerships segment to its Ei Group Managed Pubs segment or Commercial Properties segment. The comparability of the results for the periods under review is therefore impacted by disposals as well as the reallocation of pubs among segments. See "—Key Factors Affecting Ei Group's Results of Operations—Repositioning of Ei Group's Portfolio" and "—Key Factors Affecting Ei Group's Results of Operations—Disposals."

Changes in Accounting Policy

IFRS 16 (*Leases)* was published on January 13, 2016 by the International Accounting Standard Board. It became effective on January 1, 2019 and applies to the first full financial year commencing on or after that date. Ei Group's first full financial year following the effective date of IFRS 16 began on October 1, 2019. Accordingly, Ei Group has applied IFRS 16 beginning the 13 weeks ended December 28, 2019. IFRS 16 introduces a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

On the adoption of IFRS 16, Ei Group recognized a right of use asset of £211 million and a financial asset of £9 million (including the existing intangible operating lease premium asset of £8 million) with a corresponding lease liability of £281 million. The right of use asset is net of an impairment provision based on an impairment test carried out on adoption. In addition, a balance of £5 million in prepayments in relation to lease payments made immediately prior to adoption was released along with the existing onerous lease provision of £6 million and an overdue rent review provision of £5 million. The net balance of £59 million was recognized in the opening profit and loss reserve. The deferred tax effect of the above balance recognized in the opening profit and loss reserve was £10 million.

Ei Group has determined that there will be no net cash impact of the adoption of IFRS 16, however, the standard prescribes that where operating lease payments were previously categorized as operating cash flows, the payments will be split between the principal portion and the interest element with both to be presented within cash flows from financing activities. The change in presentation is expected to result in an improvement to operating cash flows of £21 million for the financial year ending September 30, 2020, the corresponding decrease being in financing cash flows.

For more information on the impact of IFRS 16 on Ei Group's consolidated financial statements, see Note 1 of Ei Group's interim financial statements as of and for the 13 weeks ended December 28, 2019 and Note 2 of Ei Group's financial statement as of and for the year ended September 30, 2019 included elsewhere in this Offering Memorandum.

Key Factors Affecting Ei Group's Results of Operations

Repositioning of Ei Group's Portfolio

In May 2015, Ei Group outlined the results of a fundamental strategic review with the aim of optimizing Ei Group's returns from every asset within its property portfolio. In order to achieve this, Ei Group established a strategy to increase its operational flexibility by:

- continuing to strengthen its tied leased and tenanted business, which was to remain the core of its business;
- establishing and expanding the Ei Group Managed Pubs segment;
- building a high quality Ei Group Commercial Properties portfolio; and
- disposing of assets when and where appropriate to optimize returns.

Pursuant to this strategy, Ei Group built the infrastructure necessary to facilitate the evolution of its estate from a predominantly leased and tenanted operation to a diversified portfolio of business models. During the periods under review, as part of the implementation of this strategy, it has established and grown the Ei Group Managed Pubs and Ei Group Commercial Properties businesses and has disposed of a number of underperforming Ei Group Publican Partnership pubs. In addition, Ei Group has grown the Ei Group Managed Pubs segment by converting, and investing in, assets previously operated within Ei Group's leased and tenanted business.

The conversion of pubs from those operated under Ei Group Publican Partnerships to Ei Group Managed Pubs or Ei Group Commercial Properties impacts Ei Group's revenue and cost structure. The revenue for Ei Group Publican Partnerships is primarily derived from rent paid by publicans and the supply of drinks to publicans. The main costs for Ei Group Publican Partnerships are costs for the purchase of drinks supplied to publicans and property costs, including repairs and maintenance and leasehold rents payable to landlords for Ei Group pubs held under operating or finance leases.

The revenue for Ei Group Managed Pubs is primarily derived from the sale of drinks and some food to retail customers. When Ei Group converts pubs from Ei Group Publican Partnerships to Ei Group

Managed Pubs, the revenue and EBITDA derived from these pubs increases, as it receives the full value of the retail sales. Correspondingly, operating costs also increase due to staff costs and other costs associated with running the Ei Group Managed Pubs (such as utilities), which are not applicable for pubs it operates under Ei Group Publican Partnerships. As a result, the Underlying EBITDA Margin for Ei Group Managed Pubs is generally lower than the Underlying EBITDA Margin for Ei Group Publican Partnerships. Therefore, the relative increase in the number of pubs under Ei Group Managed Pubs during the periods under review has resulted in an increase in revenue and EBITDA of the Ei Group Managed Pubs segment, on the one hand, and a decrease in the Underlying EBITDA Margin for Ei Group Managed Pubs, on the other hand.

Ei Group's revenue for Ei Group Commercial Properties is derived from rent, while the operating costs incurred by this segment are limited. When pubs under Ei Group Publican Partnerships are moved to Ei Group Commercial Properties, Ei Group generally seeks to negotiate a higher free-of-tie rental income. While Ei Group loses the income received from the drinks supplied to tied publicans, the Ei Group EBITDA Margin increases as it does not incur costs related to the sale of drink and food and the Underlying EBITDA Margin for Ei Group Commercial Properties is 100%. See also "— Operating Costs Control."

The following table presents the number of sites for each of Ei Group's reporting segments at the dates indicated:

	As of September 30, 2017	As of September 30, 2018	As of September 30, 2019	As of December 29, 2018	As of December 28, 2019
Ei Group Publican Partnerships	4,051	3,718	3,424	3,639	3,351
Ei Group Managed Pubs	256	355	462	392	494
Ei Group Commercial Properties	331	412	125	416	147
Total Ei Group sites	**4,638**	**4,485**	**4,011**	**4,506**(1)	**4,028**(2)

(1) Includes 59 closed sites, which were pending disposal as of December 29, 2018.

(2) Includes 36 closed sites, which were pending disposal as of December 28, 2019.

Disposals

In order to implement its strategy and provide proceeds to enable investment in more profitable pubs, Ei Group disposed of a total of approximately 671 pubs between October 1, 2017 and December 28, 2019. Disposals were primarily focused on underperforming, overlapping and ready-to-be-sold assets. Ei Group has also opportunistically disposed of well-performing non-core commercial properties where it believed that doing so would maximize value. For example, during the year ended September 30, 2019, Ei Group disposed of 354 properties under its Ei Group Commercial Properties segment and 129 assets in the ordinary course.

During the years ended September 30, 2017, 2018 and 2019, and the 13 weeks ended December 29, 2018 and December 28, 2019, Ei Group disposed of 224 pubs, 174 pubs, 483 properties (including 354 properties under its Ei Group Commercial Properties segment), 18 pubs and 14 pubs, respectively, to third parties. Ei Group reinvests part of its net disposal proceeds into capital investment in the estate. Disposal proceeds for the years ended September 30, 2017, 2018 and 2019, and the 13 weeks ended December 29, 2018 and December 28, 2019, were £100 million, £66 million, £384 million, £3 million and £4 million, respectively, which helped fund Ei Group's capital expenditure of £80 million, £81 million, £87 million, £19 million and £23 million, respectively, for these periods. Approximately 60%, 60%, 58%, 71% and 69% of capital expenditure during the years ended September 30, 2017, 2018 and 2019, and the 13 weeks ended December 29, 2018 and December 28, 2019, respectively, were directed toward income growth opportunities.

In addition to disposals, leases or tenancies may prematurely terminate or not be renewed upon expiration (business failures). Over the last few years, Ei Group has experienced a decline in unplanned business failures. Unplanned business failures, which Ei Group believes have a greater impact on its business as it is less able to mitigate their impact, have remained constant, totaling 82 pubs for the year ended September 30, 2019 (compared to 83 pubs for the year ended September 30, 2018) and 14 pubs for the 13 weeks ended December 28, 2019 (compared to 22 pubs for the 13 weeks ended December 29, 2018). Where possible, the pub will be re-let immediately to another lessee or tenant. Where this is not possible, the pub may remain closed until a new partner is found to operate the pub.

Ability to Assist Publicans and Utilize Learnings from the Ei Group Managed Pubs Segment

Ei Group Like for Like Publican Partnerships Net Income Growth was 2.3 %, 1.2% and 1.2% for the years ended September 30, 2017, 2018 and 2019, respectively. Ei Group Like for Like Publican Partnerships Net Income Growth has been maintained through the performance of publicans, supplemented by Ei Group's business enhancing support and efforts to invest capital alongside the best publicans to improve trading performance by enhancing the retail offer. For the year ended September 30, 2019, Ei Group invested £14 million (compared to £19 million in 2018 and £20 million in 2017) in growth-orientated schemes across 330 tied agreements (compared to 322 in 2018 and 351 in 2017) and delivered an average pre-tax return on investment of 20% (compared to 19% in 2018 and 21% in 2017).

Ei Group has historically provided its tied leased and tenanted publicans with a broad range of services to help them increase sales and reduce costs, and to operate their pubs efficiently and effectively. Growth of the Ei Group Managed Pubs segment provided additional insight, experience and best practices, all of which Ei Group has utilized to further enhance the support that can be provided to tied publicans in the Ei Group Publican Partnerships segment. Ei Group has now published a total of 32 Pub Principle Guides, including such business areas as product range, pricing, social media and GDPR-compliance, and its successful "eilive" roadshows saw an increase in the number of publicans attending year on year. In the year ended September 30, 2018, Ei Group launched a new online ordering platform, and almost two-thirds of its publicans now order a proportion of their weekly drinks requirement using this service.

Ei Group's ability to assist publicans during periods of economic challenge has helped prevent business failures. Despite external pressures such as rising input costs and the disproportionate burden of business rates, there has been no material change in the number of unexpected business failures with 82, or 2.0% of the estate (compared to 83, or 1.8% of the estate in 2018 and 61, or 1.3% of the estate in 2017) suffering such failure for the year ended September 30, 2019. Where appropriate, Ei Group provides direct financial assistance to tied publicans and this cost has remained stable at £4 million during the year ended September 30, 2019 (compared to £4 million in 2018 and £4 million in 2017). The extent of business failures and the need to provide support to publicans from time to time tends to affect the level of Ei Group's rental income. For example, if publicans experience low sales volumes for extended periods of time, they may not be able to pay rent at the levels agreed or at all, which could reduce Ei Group's rental income.

Finance Costs

During the periods under review, Ei Group had significant debt service obligations and its results of operations and, in particular, its finance costs, have been significantly affected by the amount of its indebtedness, including the interest costs associated with this indebtedness, the amortization of debt issue costs and refinancing costs. Ei Group's underlying finance costs for the years ended September 30, 2017, 2018 and 2019 were £149 million, £146 million and £137 million, respectively. Underlying finance costs exclude costs related to refinancing transactions that it completed during the relevant period. Such costs are recognized as non-underlying because Ei Group's refinancing activity is not representative of its underlying trading performance. See "—Non-underlying items."

Ei Group had outstanding nominal debt of £1,878 million as of December 28, 2019 (excluding a lease liability of £283 million calculated in accordance with IFRS 16), as compared to £1.9 billion as of September 30, 2019, £2.2 billion as of September 30, 2018 and £2.3 billion as of September 30, 2017. Ei Group has raised cash primarily through the issuance of Ei Corporate Bonds with maturities ranging from 2021 to 2031 and Unique Securitized Notes with maturities ranging to 2032.

In connection with the Transaction, we have redeemed the Ei Corporate Bonds (together with any accrued and unpaid interest and any redemption premium) in their entirety, as well as repaid in full the outstanding borrowings under the Ei Group Revolving Credit Facility Agreement. The indebtedness owed under the Unique Securitized Notes has been rolled over. See "Use of Proceeds," "Capitalization" and "Description of Other Indebtedness—Unique Securitized Notes."

The indebtedness owed under the Unique Securitized Notes is required to be repaid in accordance with agreed amortization schedules up to and including the final maturity of the respective notes. During the periods under review, Ei Group repaid £77 million during the year ended September 30, 2017 as scheduled repayments, £81 million during the year ended September 30, 2018 as scheduled repayments, £51 million during the year ended September 30, 2019 as scheduled repayments and £5 million during the 13 weeks ended December 28, 2019 as scheduled repayments. The Unique Securitized Notes are scheduled to amortize over a period to 2032 and attract interest rates of between 5.7% and 7.4%. See "Description of Other Indebtedness—Unique Securitized Notes."

Changing Consumer Preferences and Prevailing Macroeconomic Conditions

Ei Group's financial results are impacted by changes in consumer habits and preferences within the United Kingdom. For the year ended September 30, 2019, 76% of Ei Group's revenue was derived from drink revenue, primarily beer, from the supply of drinks to publicans and retail sales of drinks in the Ei Group Managed Pubs. In recent years, demand for premium products, such as craft beers and ciders has increased. In the periods under review, Ei Group benefited from increased sales of premium products. Based on the latest market trend, Ei Group expects this shift toward premium products to continue.

Although the volume of beer supplied or sold by Ei has remained steady in recent years, this has been largely driven by conversion of pubs from Ei Group Publican Partnerships segment to Ei Group Managed Pubs segment. Overall on-trade beer demand has decreased in recent years, as consumers are able to purchase beer at lower prices at off-license stores and supermarkets. However, the increase in demand for premium products helped offset this decline. Ei Group's drink revenue increased from £514 million for the year ended September 30, 2018 to £549 million for the year ended September 30, 2019.

Changes in the general macroeconomic environment and consumer confidence can also have an impact on Ei Group's sales. The disposable income of consumers is a key factor for pub visits. As a result, Ei Group's business is also subject to macroeconomic factors such as interest rates, inflation, disposable income, unemployment rates, taxes, consumer credit levels and house prices, which could all affect the level of consumer confidence and, in turn, impact the level of consumer spending on eating and drinking out and other leisure activities.

Ei Group's financial results can be materially impacted by any change in consumer habits within the United Kingdom. Changes in consumer tastes and demographic trends may also affect the appeal of the pubs, especially if such changes are not identified and addressed by developing formats and offerings adequately and sufficiently promptly, which could have a negative impact on financial performance.

Operating Costs Control

Ei Group's main costs are those relating to drink and food, employment, lease (for the portion of the estate that is leased from landlords under finance and operating leases), running of the Ei Group Managed Pubs and various administrative charges.

Ei Group's cost structure for Ei Group Publican Partnerships mainly comprises the costs for the purchase of drinks supplied to publicans and property costs, which include repairs and maintenance and leasehold rents payable to landlords for Ei Group's pubs held under operating or finance leases. Ei Group's cost structure for Ei Group Managed Pubs mainly comprises drink and food costs, staff costs and other running costs.

Drink and food costs are the largest element of Ei Group's operating costs, which accounted for 58.3% of its underlying operating costs for the year ended September 30, 2019. The Ei Group Publican Partnerships segment accounts for most of the drink costs. Ei Group's costs for beer and other drink products are affected by changes in the wholesale prices at which they are bought from brewers and suppliers.

The costs for drinks can also be impacted by duty escalators that may be applied by the government in the UK with respect to alcoholic drinks. For example, the government in the UK imposed a duty escalator which commenced in April 2009, pursuant to which duties on alcohol rose each year by 2% above the rate of inflation (based on retail price index, or RPI). Although the duty escalator was subsequently removed, such duties could be reintroduced and similar taxes and duties could be imposed by the government in the future.

In the Ei Group Publican Partnerships segment, Ei Group has typically passed cost increases on to publicans. However, in the Ei Group Managed Pubs segment, Ei Group's ability to pass on cost increases to its customers has been limited. Most of the beer supplied to Ei Group was purchased under supply agreements, typically for a duration of three years, with key suppliers. These agreements provide for an annual price review.

Employment costs are another significant element of Ei Group's operating costs. Ei Group employs staff to support the operations of all segments, as well as pub staff in Ei Group Managed Pubs (with the exception of the Craft Union division). Publicans in the Ei Group Publican Partnerships segment bear the employment costs of pub staff. Employment costs constituted 15.8% of Ei Group's underlying operating costs for the year ended September 30, 2019, of which 25.4% constituted the cost of wages (which are a variable cost to Ei Group) and the remaining 74.6% constituted the cost of salaries (which are a fixed cost to Ei Group). The average number of employees has grown in the periods under review from 1,369 average monthly employees during the year ended September 30, 2017, 1,872 average monthly employees during the year ended September 30, 2018, 2,180 average monthly employees during the year ended September 30, 2019. For the years ended September 30, 2017, 2018 and 2019, Ei Group's labor costs were 7.9% 8.5%, 9.8% of revenue, respectively.

Minimum wage legislation largely establishes Ei Group's base compensation levels. Increases in employment costs, whether due to market conditions or increases in mandatory minimum wages or benefits, can have a material impact on Ei Group's results of operations. See also, "—Regulation." Increases in employee turnover can also result in increased recruiting expenses and reduced efficiency through lost management time.

With respect to Ei Group's property portfolio, it leases approximately 4% of its estate from landlords under operating leases and finance leases. The costs payable on the operating leases are recognized as an expense in Ei Group's income statement. For the year ended September 30, 2019, operating leases accounted for 4.9% of Ei Group's underlying operating costs. The majority of Ei Group's leases have five-year rent review cycles.

Movements in Valuation of the Estate and Related Assets

Movements in the valuation of properties in Ei Group's estate affect Ei Group's results. Fluctuations in the property market are the primary cause of fluctuations in the value of Ei Group's assets. The year ended September 30, 2016 was the first year in which Ei Group recorded an increase in the annual estate valuation since the financial year ended September 30, 2009, when the valuation of Ei Group's estate decreased by 7% in the wake of the 2007-2008 financial crisis. The valuation of the estate during the year ended September 30, 2017 increased by 0.2%, and there was no net movement in the total value of the estate for the years ended September 30, 2018 and 2019.

For the periods under review, Ei Group's estate is held on the balance sheet as property, plant and equipment, and investment property. Licensed land and buildings are held at their fair value, and landlord's fixtures and fittings and other assets are held at cost less accumulated depreciation. Valuations of licensed land and buildings recognized in property, plant and equipment are carried out on an annual basis at the end of each fiscal year and each individual asset is separately valued.

For pubs that are held in property, plant and equipment on the balance sheet, movements in the valuation of any individual asset are recognized in accordance with IAS 16, while movements in the valuation of individual assets held as investment property are recognized in accordance with IAS 40. Any revaluation that causes the book value of a property held in property, plant and equipment to fall below historic cost will lead to a charge in the income statement. If that same property later recovers in value so that its book value exceeds historic cost, the increase in value is credited to the income statement to the extent that a debit was previously recognized. Any revaluation above book value is recognized in the revaluation reserve in the statement of comprehensive income, and if that same property later reduces in value, the decrease is debited to the revaluation reserve to the extent that a credit was previously recognized in relation to that asset. The revaluations from movements in relation to investment properties are recognized in the income statement.

The transfer of assets to non-current assets held for sale can also result in write downs. Where properties identified for disposal are revalued immediately prior to transfer to non-current assets held for sale, the revaluation movement is recognized consistently with the accounting explained above dependent on the type of asset being transferred (i.e. property, plant and equipment or investment property). Therefore, even though the valuation of the entire estate as a whole may increase in a given period, write downs of certain assets within the estate may nonetheless result in charges being recognized in the income statement.

For additional details, see Note 5(c) and Notes 16-18 to Ei Group's financial statement for the year ended September 30, 2017, Note 5(c) and Notes 16-18 to Ei Group's financial statement for year ended September 30, 2018 and Note 5(c) and Notes 15 to 17 to Ei Group's financial statement for the year ended September 30, 2019, in each case, included elsewhere in the Offering Memorandum.

Regulation

Ei Group's pubs are subject to laws and regulations that affect their operations, including in relation to employment, minimum wages, alcoholic drinks control, late-night levies, drink-driving, pub licensing, leisure (gaming) machines, competition, health and safety, sanitation, data protection and access for the disabled. See "Stonegate Group's Business—Regulation."

The Pubs Code, introduced by the Small Business, Enterprise and Employment Act 2015, came into effect in July 2016 to regulate the relationship between tied pub tenants and the large pub-owning businesses, which rent the pubs to tenants and sell them tied products, and to establish a new independent Pubs Code adjudicator to enforce the code. It provides tied publicans with a right, under certain circumstances, to replace their existing freely-negotiated tied agreements with a new free-of-tie MRO arrangement.

From the date of the introduction of the Pubs Code in July 2016 to September 30, 2019, there have been 1,662 rent review or agreement renewal events which could potentially have triggered an MRO request. As required under the Pubs Code, Ei Group issued 385 MRO offers in response to requests by tenants of which 213 have been concluded by way of mutually agreed tied deals and 52 have resulted in new mutually agreed free-of-tie terms. 1,048 pubs of the 1,662 pubs as of September 30, 2019 were still operated by the same publican on either tied or new free-of-tie agreements. Such pubs delivered like for like net income increase of 0.7% during the year ended September 30, 2019. The movement in Ei Group's income for this group of pubs has not been as strong as the Ei Group Like for Like Net Income Growth of 1.2% achieved during the year ended September 30, 2019 for the Ei Group Publican Partnerships segment reflecting, in part, the stronger negotiating position for publicans which the Pubs Code set out to achieve.

Ei Group has reduced the number of longer-term leases and increased the proportion of Ei Group's tied business operating under shorter-term tenancy agreements of up to five years in length. Since the concept of MRO agreements was first announced in November 2014, Ei Group has reduced the number of long-term agreements from 3,035 at that time to 1,552 as of September 30, 2019.

Increases in the National Minimum Wage and the National Living Wage may result in increases in Ei Group's labor costs and, to the extent Ei Group is not able to pass through these labor cost increases to its customers, it may experience an adverse impact on its gross margins. Ei Group's staff costs, which primarily include wages and salaries, have increased during the periods under review from £51 million for the year ended September 30, 2017 to £71 million for the year ended September 30, 2019, reflecting the growth of the Ei Group Managed Pubs segment as part of the strategic repositioning of its business.

Licensing authorities in the United Kingdom are authorized to impose a late-night levy on late-opening alcohol suppliers. Many of Ei Group's pubs are open late and are subject to these late-night levies. To the extent that individual licensing authorities decide to implement late-night levies or the government decides to increase the scope of these powers, Ei Group could experience an increase in its operating costs. Compliance with these laws and regulations imposes certain administrative burdens on Ei Group, as its managers are required to devote significant amounts of their time to managing and ensuring compliance with these requirements, which reduces the time they are able to dedicate to the running of the business. For risks related to changes in regulations to which Ei Group is subject or the introduction of new regulations to which it may become subject, see "Risk Factors—Risks Related to Our Business—Changes in regulations to which we are subject or the introduction of new regulations to which we may become subject could have a negative effect on our business."

Seasonal Effects

Attendance levels at Ei Group's pubs are affected by the weather and by the timing of major sporting events. Persistent rain, snow or other inclement weather, especially during the summer months or over Ei Group's peak trading periods such as the Christmas period, Easter, bank holidays and end-of-the-month salary weekends, can have a negative effect on Ei Group's revenue due to lower footfall. Major sporting events can also affect Ei Group's revenue. The absence of major sporting events, or the poor performance of a British team, could have a negative impact on Ei Group's results of operations. The seasonality of the pub industry results in variable demand and, consequently, Ei Group's revenue and operating results tend to fluctuate from period to period.

Non-underlying Items

Non-underlying items represent items that Ei Group regards as one-off or other adjusting items that are not part of Ei Group's underlying performance. Non-underlying items include reorganization costs, assignment premiums paid to publicans in order to take the assignment of a lease or to break a lease at any point other than at renewal during the period of Ei Group's strategic review, professional fees paid in relation to the Transaction, the profit on sale of controlling interest in subsidiary undertakings, the profit/loss on sale of property, the movement in valuation of the estate and related assets, goodwill impairments, costs incurred in respect of repaying debt ahead of maturity and refinancing and the gain/loss on purchase of own debt.

We have discussed some of Ei Group's key non-underlying items in more detail below.

Non-underlying Operating Costs before Depreciation and Amortization

For the year ended September 30, 2017, non-underlying operating costs before depreciation and amortization included assignment premiums of £6 million in connection with the strategic realignment of properties and restructuring costs of £3 million. For the year ended September 30, 2018, non-underlying operating costs before depreciation and amortization included assignment premiums of £4 million in connection with the strategic realignment of properties as well as restructuring costs of £1 million. For the year ended September 30, 2019, non-underlying operating costs before depreciation and amortization included assignment premiums of £8 million in connection with the strategic realignment of properties (i.e. to take the assignment of a lease or to break a lease at any point other than at renewal) and £5 million in connection with the Transaction, primarily relating to advisory fees. For the 13 weeks ended December 29, 2018 and December 28, 2019, non-underlying operating costs before depreciation and amortization consisted of assignment premiums in connection with the strategic realignment of properties.

Assignment premiums paid to publicans in order to take the assignment of a lease or to break a lease at any point other than at renewal have been paid by Ei Group following their strategic review that commenced in 2015 and the introduction of the Pubs Code in July 2016, and are not considered to be part of their underlying business as they are not expected to recur once the realignment of properties has been completed. Ei Group had expected this treatment to apply for five years following the implementation of the Pubs Code, which would allow for a full cycle of rent reviews, over which time Ei Group would assess the optimal location for each asset.

Non-underlying Finance Costs

Non-underlying finance costs for the year ended September 30, 2017 were £30 million compared to £6 million for the year ended September 30, 2018 and £15 million for the year ended September 30, 2019. Non-underlying finance costs for the year ended September 30, 2017 primarily included £28 million as premium relating to the partial refinancing of Ei Group's secured corporate bonds due 2018 and fees and disbursements of £2 million in respect of this refinancing.

Non-underlying finance costs for the year ended September 30, 2018 included (i) a loss of £1 million relating to the purchase and cancellation of a nominal book value of £4 million of the Unique Notes, and (ii) £5 million of premium and fees associated with a tender offer of the then outstanding convertible corporate bonds of Ei Group.

Non-underlying finance costs for the year ended September 30, 2019 included (i) unamortized fees of £1 million relating to amounts outstanding under the Ei Group term loan, which was repaid in March 2019 and (ii) the full prepayment of the Class A3 6.542% Notes due over a period to March 2021 ("Class A3 Unique Securitized Notes") and partial prepayment of the Class A4 Unique Securitized Notes together with the associated costs of £14 million.

Non-underlying finance costs for the 13 weeks ended December 28, 2019 included redemption costs in relation to the full prepayment of the Class A3 Unique Securitized Notes and part prepayment of the Class A4 Unique Securitized Notes. No non-underlying finance costs were incurred during the 13 weeks ended December 29, 2018.

As discussed above, write downs of certain assets within the estate below historical cost may result in charges being recognized in the income statement, while revaluations above book value of assets within the estate are recognized in the revaluation reserve in the statement of comprehensive income. For the years ended September 30, 2017, 2018 and 2019, and the 13 weeks ended December 29, 2018 and December 28, 2019, estate revaluations, revaluation of assets on transfer to investment property and non-current assets held for sale resulted in charges of £24 million, £19 million, £20 million, £3 million and £5 million, respectively, for movements in valuation of the estate and related assets recognized in the income statement.

Due to the significant fluctuations in earnings resulting from such non-underlying items, Ei Group's results may vary materially from year to year independently of Ei Group's underlying operating performance.

Key Performance Indicators

Certain non-IFRS measures for Ei Group are presented below including, among others, Ei Group EBITDA, Ei Group Underlying EBITDA, Ei Group Underlying EBITDA Margin, Ei Group Cash Conversion, Ei Group Like for Like Publican Partnerships Net Income Growth, Ei Group Managed Pubs Like for Like Sales Growth, Ei Group Like for Like Commercial Properties Net Income Growth, Ei Group Publican Partnership Pubs Site EBITDA, Ei Group Commercial Properties Site EBITDA, Ei Group Return on Investment, Ei Group Publican Partnerships Return on Investment, Ei Group Managed

Operations Return on Investment and Ei Group Managed Investments Return on Investment. These measures are not identified as accounting measures under IFRS and therefore should not be considered as alternative measures to evaluate Ei Group's performance. In addition, these measures may not be calculated on a basis similar to that used by Stonegate Group and may not be comparable to similar measures presented for Stonegate Group in this Offering Memorandum. These measures have been prepared for information purposes only and have not been prepared in accordance with IFRS or audited or reviewed in accordance with any applicable auditing standards. See "Presentation of Financial and Other Information—Non-IFRS Information."

(£ in millions, unless otherwise noted)	For the year ended September 30, 2017	For the year ended September 30, 2018	For the year ended September 30, 2019	For the 13 weeks ended December 29, 2018	For the 13 weeks ended December 28, 2019	For the 52 weeks ended December 28, 2019
Segment and Other Financial Information						
Revenue	648	695	724	185	185	724
Ei Group Publican Partnerships	*547*	*516*	*487*	*127*	*117*	*477*
Ei Group Managed Pubs	*80*	*152*	*218*	*50*	*65*	*233*
Ei Group Commercial Properties	*21*	*27*	*19*	*8*	*3*	*14*
Ei Group Underlying EBITDA(1)	287	287	276	75	69(2)	270(2)
Underlying EBITDA for Ei Group Publican Partnerships	*325*	*307*	*291*	*75*	*70*	*286*
Underlying EBITDA for Ei Group Managed Pubs	*13*	*28*	*42*	*10*	*13*	*45*
Underlying EBITDA for Ei Group Commercial Properties	*21*	*27*	*19*	*8*	*3*	*14*
Underlying EBITDA for Central	(72)	(75)	(76)	*(18)*	*(17)(2)*	*(75)(2)*
Ei Group Underlying EBITDA Margin (%)(3)	44.3%	41.3%	38.1%	40.5%	37.3%(2)	37.3%(2)
Underlying EBITDA Margin for Ei Group Publican Partnerships	*59.4%*	*59.5%*	*59.8%*	*59.1%*	*59.8%*	*60.0%*
Underlying EBITDA Margin for Ei Group Managed Pubs	*16.3%*	*18.4%*	*19.3%*	*20.0%*	*20.0%*	*19.3%*
Underlying EBITDA Margin for Ei Group Commercial Properties	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*
Ei Group Cash Conversion(4)	88.9%	88.9%	86.6%	92.0%	91.3%	86.3%
Ei Group Like for Like Publican Partnerships Net Income Growth(5)	2.3%	1.2%	1.2%	2.0%	(1.1)%	0.3%
Ei Group Managed Pubs Like for Like Sales Growth(6)	2.4%	7.1%	5.0%	5.7%	3.1%	4.1%
Ei Group Like for Like Commercial Properties Net Income Growth(7)	1.4%	5.1%	(5.0%)	6.8%	6.2%	(4.7)%

(£ in millions, unless otherwise noted)	For the year ended September 30, 2017	For the year ended September 30, 2018	For the year ended September 30, 2019	For the 13 weeks ended December 29, 2018	For the 13 weeks ended December 28, 2019	For the 52 weeks ended December 28, 2019
Ei Group Publican Partnership Pubs Site EBITDA (£ in thousands)(8)	80	81	83	21	21	83
Ei Group Commercial Properties Site EBITDA (£ in thousands)(9)	67	72	75	18	18	77
Ei Group Return on Investment(10)	21%	22%	21%	24%	24%	24%
Ei Group Publican Partnerships Return on Investment(10)	21%	19%	20%	16%	19%	19%
Ei Group Managed Operations Return on Investment(10)	25%	23%	23%	25%	22%	22%
Ei Group Managed Investments Return on Investment(10)	17%	21%	23%	19%	21%	21%

(1) Ei Group Underlying EBITDA represents Ei Group EBITDA excluding non-underlying items. Underlying EBITDA for Ei Group Publican Partnerships, Underlying EBITDA for Ei Group Managed Pubs and Underlying EBITDA for Ei Group Commercial Properties represents the operating profit for such segments since all non-underlying operating costs and depreciation and amortization are allocated to central. The following table provides a reconciliation of Ei Group Operating Profit to Ei Group EBITDA and to Ei Group Underlying EBITDA.

							Excludes the Impact of IFRS 16
(£ in millions)	For the year ended September 30, 2017	For the year ended September 30, 2018	For the year ended September 30, 2019	For the 13 weeks ended December 29, 2018	For the 13 weeks ended December 28, 2019(a)	For the 13 weeks ended December 28, 2019	For the 52 weeks ended December 28, 2019
Ei Group Operating Profit	261	263	247	69	65	65	243
Depreciation and amortization	17	19	21	5	8	8	24
Ei Group EBITDA	**278**	**282**	**268**	**74**	**73**	**73**	**267**
Non-underlying operating costs before depreciation and amortization (b)	9	5	8	1	1	1	8
Ei Group Underlying EBITDA(c)	**287**	**287**	**276**	**75**	**74**	**69**	**270**

(a) Includes the impact of IFRS 16.

(b) Non-underlying operating costs before depreciation and amortization comprise operating costs that Ei Group regards as one-off operating costs as well as other adjusting items. Ei Group applies judgment in identifying the significant items of income and expense that are recognized as non-underlying to provide an indication of Ei Group's underlying business performance. Non-underlying operating costs before depreciation and amortization included (i) for the year ended September 30, 2017, assignment premiums of £6 million in connection with the strategic realignment of properties (i.e., to take the assignment of a lease or to break a lease at any point other than at renewal) and restructuring costs of £3 million, (ii) for the year ended September 30, 2018, assignment premiums of £4 million in connection with the strategic realignment of properties as well as restructuring costs of £1 million, (iii) for the 13 weeks ended December 29, 2018, assignment premiums of £1 million in connection with the strategic realignment of properties, (iv) for the year ended September 30, 2019, assignment premiums of £8 million in connection with the strategic alignment of properties and £5 million in connection with the Transaction, primarily relating to advisory fees, and (v) for the 13 weeks ended December 28, 2019, assignment premiums of £1 million in connection with the strategic realignment of properties.

(c) Ei Group Underlying EBITDA (excluding the impact of IFRS 16) for the 52 weeks ended December 28, 2019 of £270 million includes the Ei Group Underlying EBITDA contributed by (i) the 355 assets under the Ei Group Commercial Properties segment and (ii) 124 assets in the ordinary course that were disposed of during this period. These disposed assets contributed £6 million and £1 million, respectively, to Ei Group Underlying EBITDA (excluding the impact of IFRS 16) for the 52 weeks ended December 28, 2019. Ei Group Underlying EBITDA for the year ended September 30, 2019 of £276 million includes the Ei Group Underlying EBITDA contributed by (i) the 354 assets under its Ei Group Commercial Properties segment and (ii) 129 assets in the ordinary course that were disposed of during this period and compares to Ei Group Underlying EBITDA of £287 million for the year ended September 30, 2018. These assets contributed £13 million and £1 million, respectively, to Ei Group Underlying EBITDA for the year ended September 30, 2019, and £26 million and £1 million, respectively, to Ei Group Underlying EBITDA for the year ended September 30, 2018. Accordingly, adjusting for these disposals, Ei Group Underlying EBITDA from Ei Group's retained business increased from £260 million for the year ended September 30, 2018 to £262 million for the year ended September 30, 2019.

For the 13 weeks ended December 28, 2019, the Underlying EBITDA (including the impact of IFRS 16) for Ei Group Publican Partnerships, Ei Group Managed Pubs, Ei Group Commercial Properties and central, was £70 million, £13 million, £3 million and negative £12 million, respectively.

Ei Group EBITDA and Ei Group Underlying EBITDA are non-IFRS measures that have important limitations as analytical tools. You should not consider them in isolation or as substitutes for analysis of Ei Group's results as reported under IFRS. See "Certain Definitions" and "Presentation of Financial and Other Information."

(2) Excludes the impact of IFRS 16.

(3) Ei Group Underlying EBITDA Margin represents Ei Group Underlying EBITDA divided by Ei Group revenue. Underlying EBITDA Margin for each of Ei Group's operating segments (i.e. Ei Group Publican Partnerships, Ei Group Managed Pubs and Ei Group Commercial Properties) represents Underlying EBITDA of the relevant segment divided by revenue of that segment.

(4) Ei Group Cash Conversion represents Ei Group Underlying EBITDA less Ei Group Letting and Maintenance Capital Expenditure, divided by Ei Group Underlying EBITDA. This metric is calculated on a basis similar to that for Stonegate Group and does not seek to represent any cash conversion or similar metric historically disclosed by Ei Group. Ei Group Letting and Maintenance Capital Expenditure is presented under "—Ei Group Capital Expenditure."

(5) Ei Group Like for Like Publican Partnerships Net Income Growth represents the percentage growth in the pub level net income from the Ei Group Publican Partnerships estate for all pubs that have traded as Ei Group Publican Partnership pubs for at least one full year prior to the start of the relevant period excluding income in respect of disposals and other non like for like net income and costs.

(6) Ei Group Managed Pubs Like for Like Sales Growth represents the percentage growth in the revenue from sites in the Ei Group Managed Pubs estate which were invested at least one full year prior to the start of the relevant period.

(7) Ei Group Like For Like Commercial Properties Net Income Growth represents the percentage growth in the asset level net income from the Ei Group Commercial Properties estate for all assets that have traded as Ei Group Commercial Properties for at least one full year prior to the start of the relevant period excluding income in respect of disposals and other non like for like net income and costs.

(8) Ei Group Publican Partnership Pubs Site EBITDA represents the Ei Group Underlying EBITDA for Ei Group Publican Partnership pubs trading at the end of the period (excluding income in respect of disposals and other non like for like net income and costs) divided by the number of Ei Group Publican Partnership pubs trading at the end of the period.

(9) Ei Group Commercial Properties Site EBITDA represents the Ei Group Underlying EBITDA for Ei Group Commercial Property assets trading at the end of the period (excluding income in respect of disposals and other non like for like net income and costs and including net income relating to the pubs before they were transferred to the Ei Group Commercial Properties segment offset by unlicensed property income) divided by the total Ei Group Commercial Property assets trading at the end of the period.

(10) Ei Group Return on Investment represents the return on investment for all pubs in Ei Group's estate trading for more than three months following a growth capital investment of greater than £20,000, calculated by dividing the incremental income delivered as a result of such investment by the value of such capital investment. In respect of recently opened pubs in the Ei Group Managed Pubs segment, incremental income is calculated based on EBITDA based on current site performance. Ei Group Publican Partnerships Return on Investment represents the return on investment for pubs in the Ei Group Publican Partnerships segment trading for more than three months following a growth capital investment of greater than £20,000, calculated by dividing the incremental income delivered as a result of such investment by the value of such capital investment. Ei Group Managed Operations Return on Investment represents the return on investment for pubs in Ei Group's Managed Operations division trading for more than six months following a growth capital investment of greater than £20,000, calculated by dividing the incremental income delivered as a result of such investment by the value of such capital investment. Ei Group Managed Investments Return on Investment represents the return on investment for pubs in Ei Group's Managed Investments division trading for more than six months following a growth capital investment of greater than £20,000, calculated by dividing the incremental income delivered as a result of such investment by the value of such capital investment and, in each case, excluding the minority interest of the expert partners.

Description of Key Income Statement Line Items

Revenue

Ei Group's revenue is mainly derived from the sale of drinks to third parties, after deducting discounts, VAT and volume rebates, and from rent. It also includes revenue derived from food sales, accommodation and income from amusement and other machines.

Revenue from drink and food is recognized at the point at which the goods are provided. Property rental income is recognized on a straight line basis over the life of the lease. Amusement machine royalties are recognized in the accounting period to which the income relates.

Operating Costs

Ei Group's operating costs represent its drink and food costs, managed house running costs, operating lease rentals, other property costs and administrative charges.

Depreciation and Amortization

Freehold land is not depreciated. Freehold buildings are depreciated so as to write off the difference between the carrying value and the residual value over their useful economic life. Residual value is reviewed at least at each financial year end and there is no depreciable amount if residual value is the same as, or exceeds book value. All other items of property, plant and equipment are depreciated so as to write off the total costs less residual value on a straight-line basis over their useful economic life. Ei Group's intangible assets include the fair value attributed to leasehold interests acquired as part of business combinations, which are amortized on a straight-line basis over the lease term. Goodwill arising on consolidation in respect of acquisitions is capitalized and is tested annually for impairment.

Finance Costs

Ei Group's finance costs include interest on bank loans, bonds, amortization of debt issue costs, refinancing costs and certain other interest expenses.

Profit before Tax

Profit before tax is stated after charging operating costs, depreciation and amortization, net profit on sale of property, movements in valuation of the estate, and finance costs.

Movements in Valuation of the Estate and Related Assets

Any gain or loss arising from the change in value of investment property is recognized in the income statement in the period in which it arises. Any revaluation that causes the book value of a property held in property, plant and equipment to fall below historic cost will lead to a charge in the income statement. If that same property later recovers in value so that its book value exceeds historic cost, the increase in value is credited to the income statement to the extent that a debit was previously recognized. Where properties identified for disposal are revalued immediately prior to transfer to non-current assets held for sale, the revaluation movement is recognized on the same basis.

Goodwill Impairment

Ei Group allocates goodwill balance to its operating segments and tests it annually for impairment by comparing the recoverable amount of each segment to the carrying amount. The recoverable amount is the higher of fair value less costs of disposal and value in use. The value in use is calculated using budgeted EBITDA and forecasts of cash flows, applying an appropriate long-term growth rate and discounting using a pre-tax risk adjusted discount rate. In the year ended September 30, 2019, based on external market trends, the long-term growth rate was reduced. Furthermore, the discount rate was increased to reflect market indicators identified following the Transaction. Accordingly, an impairment of £232 million (compared to £0 in 2018) was recognized in Ei Group's income statement for the year ended September 30, 2019.

Taxation

The charge for taxation is based on the profit or loss for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognized, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not been reversed by the balance sheet date, except as otherwise required by IAS 12.

Reductions of corporation tax in the United Kingdom to 19% (effective from April 1, 2017) and 17% (effective from April 1, 2020) were enacted on October 26, 2015 and September 25, 2016, respectively. In the March 2020 budget, the UK government announced that corporation tax will be frozen at 19%, reversing the previous plan to reduce it to 17%.

Profit after Tax Distributable to Members of the Parent Company

Profit after tax distributable to members of the parent company for the period represents the result of the consolidated income statement after provision for taxation and elimination of the profit attributable to non-controlling interests.

Results of Operations

13 weeks ended December 28, 2019 compared to 13 weeks ended December 29, 2018

The table below sets out Ei Group's results for the 13 weeks ended December 28, 2019 compared to the 13 weeks ended December 29, 2018:

(£ in millions)	13 weeks ended December 29, 2018	13 weeks ended December 28, 2019
Revenue	**185**	**185**
Operating costs before depreciation and amortization	(111)	(112)
EBITDA	**74**	**73**
Depreciation and amortization	**(5)**	**(8)**
Operating profit	**69**	**65**
Profit on sale of controlling interest in subsidiary undertaking	—	—
(Loss)/profit on sale of property	—	1
Goodwill allocated to disposals	(1)	—
Net loss on sale of property	(1)	1
Movements in valuation of the estate and related assets	(3)	(5)
Finance costs	(36)	(36)
Profit/(loss) before tax	**29**	**25**
Taxation	**(5)**	**(5)**
Profit/(loss) after tax attributable to members of the parent company	**24**	**20**

Revenue

Ei Group's revenue for the 13 weeks ended December 28, 2019 remained flat at £185 million, primarily due to higher revenue from Ei Group Managed Pubs being offset by loss of revenue due to the disposal of 354 assets under the Ei Group Commercial Properties segment and certain pubs under the Ei Group Publican Partnerships segment.

Set forth below is a discussion of Ei Group's revenue by segment for the 13 weeks ended December 28, 2019 compared to the 13 weeks ended December 29, 2018.

(£ in millions)	13 weeks ended December 29, 2018	13 weeks ended December 28, 2019
Ei Group Publican Partnerships	127	117
Ei Group Managed Pubs	50	65
Ei Group Commercial Properties	8	3
Group Revenue	**185**	**185**

Revenue for the 13 weeks ended December 28, 2019 from Ei Group Publican Partnerships decreased by £10 million, or 7.9%, to £117 million from £127 million for the 13 weeks ended December 29, 2018, primarily due to a decrease in the number of Ei Group Publican Partnerships pubs (from 3,639 pubs as of December 29, 2018 to 3,351 pubs as of December 28, 2019) and a decline in volume of beer supply.

Revenue for the 13 weeks ended December 28, 2019 from Ei Group Managed Pubs increased by £15 million, or 30.0%, to £65 million from £50 million for the 13 weeks ended December 29, 2018, primarily due to an increase in the number of Ei Group Managed Pubs (from 392 pubs as of December 29, 2018 to 494 pubs as of December 28, 2019).

Revenue for the 13 weeks ended December 28, 2019 from Ei Group Commercial Properties decreased by £5 million, or 62.5%, to £3 million from £8 million for the 13 weeks ended December 29, 2018, primarily due to the disposal of 354 assets under the Ei Group Commercial Properties segment.

The following table sets forth a breakdown of Ei Group's revenues by source of revenue for the 13 weeks ended December 28, 2019 compared to the 13 weeks ended December 29, 2018.

(£ in millions)	13 weeks ended December 29, 2018	13 weeks ended December 28, 2019
Drink revenue	139	142
Rent revenue	37	31
Food revenue	5	6
Revenue from amusement and other machines	3	5
Other revenue	1	1
Group Revenue	**185**	**185**

Drink revenue for the 13 weeks ended December 28, 2019 increased by £3 million, or 2.2%, to £142 million from £139 million for the 13 weeks ended December 29, 2018, primarily due to an increase in the number of Ei Group Managed Pubs where Ei Group's revenue reflects the full retail price of drinks partially offset by decreases in volume of beer supply to publicans.

Rent revenue for the 13 weeks ended December 28, 2019 decreased by £6 million, or 16.2%, to £31 million from £37 million for the 13 weeks ended December 29, 2018, primarily due to the disposal of 354 assets under the Ei Group Commercial Properties segment.

Food revenue for the 13 weeks ended December 28, 2019 increased by £1 million, or 20.0%, to £6 million from £5 million for the 13 weeks ended December 29, 2018, primarily due to an increase in the number of Ei Group Managed Pubs where Ei Group's revenue reflects the full retail price of food.

Revenue from amusement and other machines for the 13 weeks ended December 28, 2019 increased by £2 million, or 66.7%, to £5 million from £3 million for 13 weeks ended December 29, 2018, primarily due to a greater share of the income in the Ei Group Managed Pubs segment.

Other revenue represents accommodation income under the Ei Group Managed Pubs segment and for the 13 weeks ended December 28, 2019 it remained flat at £1 million.

Operating costs before depreciation and amortization

Ei Group's operating costs for the 13 weeks ended December 28, 2019 increased by £1 million, or 0.9%, to £112 million from £111 million for the 13 weeks ended December 29, 2018. The increase primarily reflects increase in the running costs of the Ei Group Managed Pubs segment as additional pubs were moved into this segment, offset by the elimination of operating lease expense as operating cost pursuant to the adoption of IFRS 16 by Ei Group.

Underlying operating costs before depreciation and amortization are presented on a segment basis below:

(£ in millions)	13 weeks ended December 29, 2018	13 weeks ended December 28, 2019
Ei Group Publican Partnerships	52	47
Ei Group Managed Pubs	40	52
Ei Group Commercial Properties	—	—
Central	18	12
Underlying operating costs before depreciation and amortization	110	111

Underlying operating costs for the 13 weeks ended December 28, 2019 for Ei Group Publican Partnerships, which primarily include drink costs and property costs, decreased by £5 million, or 9.6%, to £47 million from £52 million for the 13 weeks ended December 29, 2018, primarily reflecting lower operating costs due to a decrease in the number of pubs under the Ei Group Publican Partnerships segment.

Underlying operating costs for the 13 weeks ended December 28, 2019 for Ei Group Managed Pubs, which primarily include staff costs and drink and food costs, increased by £12 million to £52 million from £40 million for the 13 weeks ended December 29, 2018, primarily reflecting higher operating costs due to an increase in the number of operating pubs in this segment.

Underlying Central costs for the 13 weeks ended December 28, 2019, which include costs for the staff supporting Ei Group's operations for all segments, administrative expenses and certain property costs, decreased by £6 million, or 33.3%, to £12 million from £18 million from the 13 weeks ended December 29, 2018.

EBITDA

Ei Group EBITDA for the 13 weeks ended December 28, 2019 decreased by £1 million, or 1.4%, to £73 million from £74 million for the 13 weeks ended December 29, 2018, primarily driven by the disposal of 354 assets under the Ei Group Commercial Properties segment offset by an increase in Ei Group EBITDA due to the elimination of operating lease expense as operating cost pursuant to the adoption of IFRS 16. Ei Group EBITDA Margin decreased slightly to 39.5% from 40.0% due to the growth of the Ei Group Managed Pubs segment where Ei Group earns higher revenue but has lower EBITDA margin.

Ei Group Underlying EBITDA for the 13 weeks ended December 28, 2019, which excludes non-underlying costs of £1 million incurred in respect of assignment premiums in connection with the strategic realignment of properties, decreased by £6 million, or 8.0%, to £69 million from £75 million for the 13 weeks ended December 29, 2018. Ei Group Underlying EBITDA for the 13 weeks ended December 28, 2019 is calculated to exclude the impact of IFRS 16 and without the benefit of increase in EBITDA pursuant to the adoption of IFRS 16, the Ei Group Underlying EBITDA decreased primarily due to the disposal of 354 assets under the Ei Group Commercial Properties. Ei Group Underlying EBITDA Margin decreased to 37.3% from 40.5% for the same period.

The following table sets forth Underlying EBITDA for each of Ei Group's segments:

		Excludes the Impact of IFRS 16, as applicable
	13 weeks ended December 29, 2018	**13 weeks ended December 28, 2019**
(£ in millions)		
Ei Group Publican Partnerships	75	70
Ei Group Managed Pubs	10	13
Ei Group Commercial Properties	8	3
Central	(18)	(17)
Ei Group Underlying EBITDA[(1)]	75	69

(1) For a reconciliation of Ei Group Underlying EBITDA to Ei Group's operating profit, see "—Key Performance Indicators."

Underlying EBITDA Margin for Ei Group Publican Partnerships increased to 59.8% for the 13 weeks ended December 28, 2019 from 59.1% for the 13 weeks ended December 29, 2018, primarily due to a decrease in the number of Ei Group Publican Partnership pubs. Underlying EBITDA Margin for Ei Group Managed Pubs remained flat at 20.0%. Underlying EBITDA Margin for Ei Group Commercial Properties is 100%.

Movements in Valuation of the Estate and Related Assets

Charges recognized in the income statement for movements in valuation of the estate and related assets increased by £2 million, or 66.7%, to £5 million from £3 million during the 13 weeks ended December 29, 2018, primarily due to an increase in revaluation of assets which are non-current assets held for sale.

Finance Costs

Ei Group's finance costs for the 13 weeks ended December 28, 2019 remained flat at £36 million. Underlying finance costs of £35 million for the 13 weeks ended December 28, 2019 were £1 million lower than the 13 weeks ended December 29, 2018 as a result of lower debt levels in the 13 weeks ended December 28, 2019 compared to the 13 weeks ended December 29, 2018, offset by an increase in finance cost represented by interest expenses on lease liabilities pursuant to the adoption of IFRS 16 by Ei Group. Non-underlying finance costs of £1 million for the 13 weeks ended December 28, 2019, which were £1 million higher than the 13 weeks ended December 29, 2018, were primarily due to costs associated with the full prepayment of the Class A3 Unique Securitized Notes and part prepayment of the Class A4 Unique Securitized Notes.

Profit/(loss) before Tax

Ei Group's profit before tax for the 13 weeks ended December 28, 2019 was £25 million compared to profit before tax of £29 million for the 13 weeks ended December 29, 2018, primarily due to the sale of 354 assets under the Ei Group Commercial Properties segment. Underlying profit before tax during the 13 weeks ended December 28, 2019 was £31 million compared to £34 million during the 13 weeks ended December 29, 2018.

Taxation

Taxation charges for the 13 weeks ended December 28, 2019 remained flat at £5 million.

Profit/(loss) after tax attributable to members of the Parent Company

Profit after tax for the 13 weeks ended December 28, 2019 was £20 million compared to a profit after tax of £24 million for the 13 weeks ended December 29, 2018. Underlying profit after tax for the 13 weeks ended December 28, 2019 decreased by £3 million to £25 million from £28 million for the 13 weeks ended December 29, 2018.

Year ended September 30, 2019 compared to year ended September 30, 2018

The table below sets out Ei Group's results for the year ended September 30, 2019 compared to the year ended September 30, 2018:

(£ in millions)	Year ended September 30, 2018	Year ended September 30, 2019
Revenue	**695**	**724**
Operating costs before depreciation and amortization	(413)	(456)
EBITDA	**282**	**268**
Depreciation and amortization	(19)	(21)
Operating profit	**263**	**247**
Profit on sale of controlling interest in subsidiary undertaking	1	—
(Loss)/profit on sale of property	2	(7)
Goodwill allocated to disposals	(8)	(35)
Net loss on sale of property	(6)	(42)
Movements in valuation of the estate and related assets	(19)	(20)
Goodwill impairment	—	(232)
Finance costs	(152)	(152)
Profit/(loss) before tax	**87**	**(199)**
Taxation	(15)	(10)
Profit/(loss) after tax attributable to members of the parent company	**72**	**(209)**

Revenue

Ei Group's revenue for the year ended September 30, 2019 increased by £29 million, or 4.2%, to £724 million from £695 million for the year ended September 30, 2018, primarily due to higher revenue from Ei Group Managed Pubs, which was partially offset by loss of revenue due to the disposal of 354 assets during the year ended September 30, 2019. Set forth below is a discussion of Ei Group's revenue by segment for the year ended September 30, 2019 compared to the year ended September 30, 2018.

(£ in millions)	Year ended September 30, 2018	Year ended September 30, 2019
Ei Group Publican Partnerships	516	487
Ei Group Managed Pubs	152	218
Ei Group Commercial Properties	27	19
Group Revenue	**695**	**724**

Revenue for the year ended September 30, 2019 from Ei Group Publican Partnerships decreased by £29 million, or 5.6%, to £487 million from £516 million for the year ended September 30, 2018, primarily reflecting the decrease in the number of pubs from 3,718 as of September 30, 2018 to 3,424 as of September 30, 2019, which was partly offset by strong performance across all geographical regions.

Revenue for the year ended September 30, 2019 from Ei Group Managed Pubs increased by £66 million, or 43.4%, to £218 million from £152 million for the year ended September 30, 2018, primarily reflecting the addition of 107 pubs since the end of the year ended September 30, 2018 and improved performance in the pubs that traded under the Ei Group Managed Pubs segment during both periods, as reflected in the Ei Group Managed Pubs Like for Like Sales Growth of 5.0% for the year ended September 30, 2019.

Revenue for the year ended September 30, 2019 from Ei Group Commercial Properties decreased by £8 million, or 29.6%, to £19 million from £27 million for the year ended September 30, 2018, primarily due to the disposal of 354 assets.

The following table sets forth a breakdown of Ei Group's revenues by source of revenue for the year ended September 30, 2019 compared to the year ended September 30, 2018.

(£ in millions)	Year ended September 30, 2018	Year ended September 30, 2019
Drink revenue	514	549
Rent revenue	151	135
Food revenue	15	20
Revenue from amusement and other machines	13	16
Other revenue	2	4
Group Revenue	**695**	**724**

Drink revenue for the year ended September 30, 2019 increased by £35 million, or 6.8%, to £549 million from £514 million for the year ended September 30, 2018, primarily due to broadly stable sales volumes to publicans, pricing and mix benefits and the increase in the number of Ei Group Managed Pubs where Ei Group's revenue reflects the full retail price of drinks.

Rent revenue for the year ended September 30, 2019 decreased by £16 million, or 10.6%, to £135 million from £151 million for the year ended September 30, 2018, primarily due to the disposal of 354 assets under the Ei Group Commercial Properties segment and the allocation of pubs from the Ei Group Publican Partnerships segment to the Ei Group Managed Pubs segment where Ei Group receives no rent, which was partly offset by higher rent due to rent reviews.

Food revenue for the year ended September 30, 2019 increased by £5 million, or 33.3%, to £20 million from £15 million for the year ended September 30, 2018, primarily due to the increase in the number of Ei Group Managed Pubs where Ei Group's revenue reflects the full retail price of food.

Revenue from amusement and other machines for the year ended September 30, 2019 increased by £3 million, or 23.1%, to £16 million from £13 million for the year ended September 30, 2018, primarily due to a greater share of the income in the Ei Group Managed Pubs segment.

Other revenue represents accommodation income under the Ei Group Managed Pubs segment and for the year ended September 30, 2019 it increased by £2 million, or 100%, to £4 million from £2 million for the year ended September 30, 2018.

Operating costs before depreciation and amortization

Ei Group's operating costs for the year ended September 30, 2019 increased by £43 million, or 10.4%, to £456 million from £413 million for the year ended September 30, 2018. The increase primarily reflects the increase in the running costs of the Ei Group Managed Pubs segment as additional pubs were moved into this segment in the year ended September 30, 2019. Underlying operating costs, which exclude non-underlying costs of £8 million incurred in respect of assignment premiums, professional fees relating to the Transaction and reorganization costs for the year ended September 30, 2019, were £448 million compared to £408 million for the year ended September 30, 2018.

Underlying operating costs before depreciation and amortization are presented on a segment basis below:

	Year ended September 30, 2018	Year ended September 30, 2019
(£ in millions)		
Ei Group Publican Partnerships	209	196
Ei Group Managed Pubs	124	176
Ei Group Commercial Properties	—	—
Central	75	76
Underlying operating costs before depreciation and amortization	**408**	**448**

Underlying operating costs for the year ended September 30, 2019 for Ei Group Publican Partnerships, which primarily include drink costs and property costs, decreased by £13 million, or 6.2%, to £196 million from £209 million for the year ended September 30, 2018, primarily reflecting lower operating costs due to a decrease of 294 operating pubs in this segment in the year ended September 30, 2019.

Underlying operating costs for the year ended September 30, 2019 for Ei Group Managed Pubs, which primarily include staff costs and drink and food costs, increased by £52 million to £176 million from £124 million for the year ended September 30, 2018, primarily reflecting higher operating costs due to an increase of 107 operating pubs in this segment in the year ended September 30, 2019.

Underlying Central costs for the year ended September 30, 2019, which include costs for the staff supporting Ei Group's operations for all segments, administrative expenses and certain property costs, increased by £1 million, or 1.3%, to £76 million from £75 million from the year ended September 30, 2018.

EBITDA

Ei Group EBITDA for the year ended September 30, 2019 decreased by £14 million, or 5.0%, to £268 million from £282 million for the year ended September 30, 2018, primarily driven by an increase of £3 million in non-underlying operating costs compared to the year ended September 30, 2018, due to professional fees incurred in respect of the Transaction, and a decrease in Ei Group Underlying EBITDA of £11 million in the year ended September 30, 2019 compared to the year ended September 30, 2018, primarily reflecting the disposals during the year ended September 30, 2019. These disposals contributed £13 million to Ei Group Underlying EBITDA for the year ended September 30, 2019 and £26 million to Ei Group Underlying EBITDA for the year ended September 30, 2018. Accordingly, adjusting for these disposals, Ei Group Underlying EBITDA from Ei Group's retained business increased from £261 million for the year ended September 30, 2018 to £263 million for the year ended September 30, 2019. Ei Group EBITDA Margin decreased to 37.0% from 40.6% reflecting the growth of the Ei Group Managed Pubs segment, where Ei Group earns higher revenue and EBITDA but has a lower EBITDA margin.

Ei Group Underlying EBITDA for the year ended September 30, 2019, which excludes non-underlying costs of £8 million incurred in respect of assignment premiums paid, professional fees incurred in respect of the Transaction and reorganization costs, decreased by £11 million, or 3.8%, to £276 million from £287 million for the year ended September 30, 2018, primarily reflecting the completion of the disposal of 354 assets in the Ei Group Commercial Properties segment during the year ended September 30, 2019. These assets contributed £13 million to Ei Group Underlying EBITDA in the year ended September 30, 2019 and £26 million in the year ended September 30, 2018. Accordingly, adjusting for these disposals, Ei Group Underlying EBITDA for the retained business increased from £261 million for the year ended September 30, 2018 to £263 million for the year ended September 30, 2019. Ei Group Underlying EBITDA Margin decreased to 38.1% from 41.3% for the same period.

The following table sets forth Underlying EBITDA for each of Ei Group's segments:

(£ in millions)	Year ended September 30, 2018	Year ended September 30, 2019
Ei Group Publican Partnerships	307	291
Ei Group Managed Pubs	28	42
Ei Group Commercial Properties	27	19
Central	(75)	(76)
Ei Group Underlying EBITDA(1)	**287**	**276**

(1) For a reconciliation of Ei Group Underlying EBITDA to Ei Group's operating profit, see "—Key Performance Indicators."

Underlying EBITDA Margin for Ei Group Publican Partnerships increased to 59.8% for the year ended September 30, 2019 from 59.5% for the year ended September 30, 2018, primarily reflecting an increase in average profitability of Ei Group Publican Partnerships pubs. Underlying EBITDA Margin for Ei Group Managed Pubs increased to 19.3% from 18.4%, primarily reflecting improved like for like revenue and improved costs due to economies of scale. Underlying EBITDA Margin for Ei Group Commercial Properties is 100%.

Movements in Valuation of the Estate and Related Assets

Charges recognized in the income statement for movements in valuation of the estate and related assets increased by £1 million, or 5.3%, to £20 million from £19 million during the year ended September 30, 2018, primarily reflecting an increase in valuation of the estate and related assets during the year ended September 30, 2019 compared to the year ended September 30, 2018, partially offset by a write-down of the assets held for sale during the year ended September 30, 2019.

Goodwill Impairment

Goodwill impairment of £232 million was recognized for the year ended September 30, 2019 (compared to £0 in 2018) primarily reflecting a lower estimated recoverable amount compared to the carrying amount based on lower estimated value in use. Lower estimated value in use was, in turn, derived based on external market trends whereby the long-term growth rates used in the computation were reduced and the discount rate used in the computation was increased to reflect market indicators following the Transaction.

Finance Costs

Ei Group's finance costs for the year ended September 30, 2019 remained flat at £152 million. Underlying finance costs of £137 million for the year ended September 30, 2019 were £9 million lower than the year ended September 30, 2018 as a result of debt reduction. Non-underlying finance costs of £15 million for the year ended September 30, 2019, which were £9 million higher than the year ended September 30, 2018, were primarily due to costs of £14 million associated with the full prepayment of the Class A3 Unique Securitized Notes and part prepayment of the Class A4 Unique Securitized Notes from disposal proceeds.

Profit/(loss) before Tax

Ei Group's loss before tax for the year ended September 30, 2019 was £199 million compared to profit before tax of £87 million for the year ended September 30, 2018, primarily reflecting recognition of £232 million of goodwill impairment during this period. Underlying profit before tax during the year ended September 30, 2019 was £118 million compared to £122 million during the year ended September 30, 2018.

Taxation

Taxation charges for the year ended September 30, 2019 decreased to £10 million from £15 million for the year ended September 30, 2018, primarily reflecting higher non-underlying tax credits received in the year ended September 30, 2019 compared to those received in the year ended September 30, 2018. A non-underlying tax credit of £8 million (compared to £1 million in 2018) was recognized in relation to the non-underlying items in the income statement for a total non-underlying tax credit of £11 million (compared to £7 million in 2018) for the year ended September 30, 2019.

Profit/(loss) after tax attributable to members of the Parent Company

Loss after tax for the year ended September 30, 2019 was £209 million compared to a profit after tax of £72 million for the year ended September 30, 2018. Underlying profit after tax for the year ended

September 30, 2019 decreased by £3 million to £97 million from £100 million for the year ended September 30, 2018.

Year ended September 30, 2018 compared to year ended September 30, 2017

The table below sets out Ei Group's results for the year ended September 30, 2018 compared to the year ended September 30, 2017:

(£ in millions)	Year ended September 30, 2017	Year ended September 30, 2018
Revenue	**648**	**695**
Operating costs before depreciation and amortization	(370)	(413)
EBITDA	**278**	**282**
Depreciation and amortization	(17)	(19)
Operating profit	**261**	**263**
Profit on sale of controlling interest in subsidiary undertaking	—	1
(Loss)/profit on sale of property	10	2
Goodwill allocated to disposals	(10)	(8)
Net loss on sale of property	—	(6)
Movements in valuation of the estate and related assets	(24)	(19)
Finance costs	(179)	(152)
Profit/(loss) before tax	**58**	**87**
Taxation	(4)	(15)
Profit/(loss) after tax attributable to members of the parent company	**54**	**72**

Revenue

Ei Group's revenue for the year ended September 30, 2018 increased by £47 million, or 7.3%, to £695 million from £648 million for the year ended September 30, 2017, driven primarily by higher revenue from Ei Group Managed Pubs, which was partly offset by loss of revenue due to disposals of Ei Group Publican Partnership pubs. Set forth below is a discussion of Ei Group's revenue by segment for the year ended September 30, 2018 compared to the year ended September 30, 2017.

(£ in millions)	Year ended September 30, 2017	Year ended September 30, 2018
Ei Group Publican Partnerships	547	516
Ei Group Managed Pubs	80	152
Ei Group Commercial Properties	21	27
Group Revenue	**648**	**695**

Revenue for the year ended September 30, 2018 from Ei Group Publican Partnerships decreased by £31 million, or 5.7%, to £516 million from £547 million for the year ended September 30, 2017, primarily reflecting the decrease in the number of pubs from 4,051 as of September 30, 2017 to 3,718 as of September 30, 2018, which was partly offset by increased sales on account of the Football World Cup and prolonged periods of good weather during the year ended September 30, 2018.

Revenue for the year ended September 30, 2018 from Ei Group Managed Pubs increased by £72 million, or 90.0%, to £152 million from £80 million for the year ended September 30, 2017, primarily reflecting the addition of 99 pubs since the end of the year ended September 30, 2017 and improved performance in the pubs that traded under the Ei Group Managed Pubs segment during both periods, as reflected in the Ei Group Managed Pubs Like for Like Sales Growth of 7.1%.

Revenue for the year ended September 30, 2018 from Ei Group Commercial Properties increased by £6 million, or 28.6%, to £27 million from £21 million for the year ended September 30, 2017, primarily due to the addition of 81 pubs (net of disposals) since the end of the year ended September 30, 2017, the improvement in the underlying quality of assets and increased rents on existing assets following rent reviews and annual RPI increases.

The following table sets forth a breakdown of Ei Group's revenues by source of revenue for the year ended September 30, 2018 compared to the year ended September 30, 2017.

(£ in millions)	Year ended September 30, 2017	Year ended September 30, 2018
Drink revenue	473	514
Rent revenue	154	151
Food revenue	9	15
Revenue from amusement and other machines	11	13
Other revenue	1	2
Group Revenue	**648**	**695**

Drink revenue for the year ended September 30, 2018 increased by £41 million, or 8.7%, to £514 million from £473 million for the year ended September 30, 2017, primarily due to the increase in the number of Ei Group Managed Pubs where Ei Group's revenue represents the full retail price of drinks, while higher beer prices and increased sales of premium products were offset by volume decline.

Rent revenue for the year ended September 30, 2018 decreased by £3 million, or 1.9%, to £151 million from £154 million for the year ended September 30, 2017, primarily reflecting disposals of pubs and the allocation of pubs from Ei Group Publican Partnerships to Ei Group Managed Pubs where the Ei Group receives no rent, which was partly offset by higher rent due to rent reviews.

Food revenue for the year ended September 30, 2018 increased by £6 million, or 66.7%, to £15 million from £9 million for the year ended September 30, 2017, primarily due to the increase in the number of Ei Group Managed Pubs where Ei Group's revenue reflects the full retail price of food.

Revenue from amusement and other machines for the year ended September 30, 2018 increased by £2 million, or 18.2%, to £13 million from £11 million for the year ended September 30, 2017, primarily due to the corresponding increase in the number of Ei Group Managed Pubs, where unlike Ei Group Publican Partnership pubs, Ei Group retains the entire revenue.

Other revenue represents accommodation income in the Ei Group Managed Pubs and for the year ended September 30, 2018 increased by £1 million, or 100%, to £2 million from £1 million for the year ended September 30, 2017.

Operating costs before depreciation and amortization

Ei Group's operating costs for the year ended September 30, 2018 increased by £43 million, or 11.6%, to £413 million from £370 million for the year ended September 30, 2017. The increase primarily reflects the increase in the running costs of the Ei Group Managed Pubs segment as additional pubs were moved from Ei Group Publican Partnerships into this segment in the year ended September 30, 2018. Underlying operating costs, which exclude non-underlying costs of £5 million related to assignment premiums for the year ended September 30, 2018 were £408 million compared to £361 million for the year ended September 30, 2017.

Underlying operating costs before depreciation and amortization are presented on a segment basis below:

(£ in millions)	Year ended September 30, 2017	Year ended September 30, 2018
Ei Group Publican Partnerships	222	209
Ei Group Managed Pubs	67	124
Ei Group Commercial Properties	—	—
Central	72	75
Underlying operating costs before depreciation and amortization	**361**	**408**

Underlying operating costs for the year ended September 30, 2018 for Ei Group Publican Partnerships, which primarily include drink costs and property costs, decreased by £13 million, or 5.9%, to £209 million from £222 million for the year ended September 30, 2017, primarily reflecting lower operating costs due to the disposal of pubs.

Underlying operating costs for the year ended September 30, 2018 for Ei Group Managed Pubs, which primarily include staff costs and drink and food costs, increased by £57 million, or 85.1%, to £124 million from £67 million for the year ended September 30, 2017, primarily reflecting higher operating costs due to an increase of 99 operating pubs in this segment in the year ended September 30, 2018.

Underlying Central costs for the year ended September 30, 2018 increased by £3 million, or 4.2%, to £75 million from £72 million from the year ended September 30, 2017, primarily reflecting the recruitment of additional personnel to assist in the delivery of Ei Group's strategic objectives and additional administrative costs arising from the introduction of the Pubs Code.

EBITDA

Ei Group EBITDA for the year ended September 30, 2018 increased by £4 million, or 1.4%, to £282 million from £278 million during the year ended September 30, 2017, primarily driven by a decrease of £4 million in non-underlying operating costs compared to the year ended September 30, 2017, due to a reduction of £2 million in the assignment premiums paid in connection with the strategic realignment of properties (i.e., to take the assignment of a lease or to break a lease at any point other than at renewal) and a reduction of £2 million in restructuring costs. Ei Group EBITDA Margin decreased to 40.6% from 42.9% reflecting the growth of the Ei Group Managed Pubs segment where Ei Group earns higher revenue but has lower EBITDA margin, partly offset by the reduction in non-underlying operating costs for the year ended September 30, 2018.

Ei Group Underlying EBITDA for the year ended September 30, 2018, which excludes non-underlying costs of £5 million related to assignment premiums paid and reorganizations costs, remained flat at £287 million. Ei Group Underlying EBITDA Margin decreased to 41.3% from 44.3%.

The following table sets forth Underlying EBITDA for each of Ei Group's segments:

(£ in millions)	Year ended September 30, 2017	Year ended September 30, 2018
Ei Group Publican Partnerships	325	307
Ei Group Managed Pubs	13	28
Ei Group Commercial Properties	21	27
Central	(72)	(75)
Ei Group Underlying EBITDA[(1)]	**287**	**287**

(1) For a reconciliation of Ei Group Underlying EBITDA to Ei Group operating profit, see "—*Key Performance Indicators.*"

Underlying EBITDA Margin for Ei Group Publican Partnerships increased to 59.5% for the year ended September 30, 2018 from 59.4% for the year ended September 30, 2017, primarily reflecting higher rents. Underlying EBITDA margin for Ei Group Managed Pubs increased to 18.4% from 16.3%, primarily reflecting improved like for like revenue and improved costs due to economies of scale. Underlying EBITDA Margin for Ei Group Commercial Properties is 100%.

Movements in Valuation of the Estate and Related Assets

Charges recognized in the income statement for movements in valuation of the estate and related assets for the year ended September 30, 2018 decreased by £5 million, or 20.8%, to £19 million from £24 million during the year ended September 30, 2017, primarily reflecting a reduction in the write-down of the assets held for sale during the year ended September 30, 2018, partly offset by an increase in overall write-down of assets valued as part of Ei Group's annual valuation as of September 30, 2018.

Finance Costs

Ei Group's finance costs for the year ended September 30, 2018 decreased by £27 million, or 15.1%, to £152 million from £179 million for the year ended September 30, 2017, primarily due to a decrease in non-underlying finance costs to £6 million for the year ended September 30, 2018 from £30 million for the year ended September 30, 2017. The non-underlying finance costs during the year ended September 30, 2017 were incurred in connection with Ei Group's refinancing of its revolving credit facilities and a partial refinancing of the Ei Group's secured corporate bonds due 2018. Underlying finance costs for the year ended September 30, 2018 were £146 million compared to underlying finance costs of £149 million during the year ended September 30, 2017, reflecting a reduction in debt.

Profit/(loss) before Tax

Ei Group's profit before tax for the year ended September 30, 2018 increased by £29 million, or 50.0%, to £87 million from £58 million for the year ended September 30, 2017, primarily reflecting lower non-underlying finance costs in the year ended September 30, 2018 compared to the year ended September 30, 2017. Underlying profit before tax for the year ended September 30, 2018 was £122 million compared to £121 million for the year ended September 30, 2017.

Taxation

Taxation charges for the year ended September 30, 2018 increased to £15 million from £4 million for the year ended September 30, 2017, primarily reflecting lower non-underlying tax credits received in the year ended September 30, 2019 compared to the year ended September 30, 2018. During the year ended September 30, 2017, Ei Group received higher tax credits in connection with the refinancing costs discussed above.

Profit/(loss) after tax attributable to members of the Parent Company

Profit after tax for the year ended September 30, 2018 increased by £18 million, or 33.3%, to £72 million from £54 million for the year ended September 30, 2017 for the reasons discussed above. Underlying profit after tax for the year ended September 30, 2018 increased by £1 million to £100 million from £99 million for the year ended September 30, 2017.

Liquidity and Capital Resources

Ei Group's primary sources of liquidity are its operating cash flows, cash from the disposals of pubs and financing activities. Cash flows from operations and proceeds from pub disposals are expected to be Ei Group's key sources of liquidity.

Cash Flows

The following table presents, for the periods indicated, Ei Group's consolidated statement of cash flows:

(£ millions)	Year ended September 30, 2017	Year ended September 30, 2018	Year ended September 30, 2019	For the 13 weeks ended December 29, 2018	For the 13 weeks ended December 28, 2019
Cash flows from operating activities					
Operating profit	261	263	247	69	65
Depreciation and amortization	17	19	21	5	8
Share-based expense recognized in the income statement	3	2	3	1	1
(Increase)/decrease in receivables	(7)	(7)	6	(11)	(14)
(Decrease)/increase in payables	3	3	(10)	(9)	(10)
Increase in inventories	(1)	(1)	(2)	(2)	(2)
Increase in provisions	1	1	—	—	—
	277	**280**	**265**	**53**	**48**
Expenditure associated with capital structure review	—	—	—	—	—
Tax paid	(16)	(9)	(18)	(4)	(12)
Net cash flows from operating activities	**261**	**271**	**247**	**49**	**36**
Cash flows from investing activities					
Payments made on improvements to public houses	(72)	(75)	(81)	(18)	(20)
Payments to acquire other property, plant and equipment	(7)	(6)	(6)	(1)	(3)
Receipts from sale of property	100	66	384	3	4
Acquisition of subsidiary undertakings	(1)	—	—	—	—
Net cash flows from investing activities	**20**	**(15)**	**297**	**(16)**	**(19)**
Cash flows from financing activities					
Interest paid	(149)	(143)	(139)	(30)	(27)
Interest received	—	—	2	—	—
Debt extinguishment costs	(30)	(7)	—	—	—
Debt restructuring costs	(3)	(7)	(2)	(2)	—
Debt redemption costs	—	—	(14)	—	(1)
Payments to acquire own debt	—	(5)	—	—	—
Payments to acquire own shares	(17)	(21)	(63)	(11)	—
Receipts from exercise of share options	1	—	—	—	—
Proceeds from the issue of subsidiary share capital to non-controlling interests	—	—	—	—	—
Principal element of lease payment	—	—	—	—	(1)
New loans	520	340	320	200	35
Repayment of loans	(597)	(406)	(650)	(183)	(23)
Net cash flows from financing activities	**(275)**	**(249)**	**(546)**	**(26)**	**(17)**
Net increase /(decrease) in cash	**6**	**7**	**(2)**	**7**	—
Cash at the start of period	145	151	158	158	156
Cash at the end of period	**151**	**158**	**156**	**165**	**156**

Net Cash Flows from Operating Activities

Net cash flows from operating activities for the 13 weeks ended December 28, 2019 decreased by £13 million, or 26.5%, to £36 million compared to £49 million for the 13 weeks dated December 29, 2018, primarily as a result of a decrease in operating profit resulting from the disposal of assets under the Ei Group Commercial Properties segment, an increase in tax payments due to changes in the timing of tax payments to HMRC and a larger working capital outflow, partially offset by a reclassification of lease payments as financing cash flow pursuant to the adoption of IFRS 16 by Ei Group.

Net cash flows from operating activities for the year ended September 30, 2019 decreased by £24 million, or 8.9%, to £247 million compared to £271 million for the year ended September 30, 2018, primarily as a result of a decrease in operating profit resulting from the disposal of assets under the Ei Group Commercial Properties segment in the year ended September 30, 2019 and an increase of £9 million in taxes paid in the year ended September 30, 2019 due to certain tax repayments received from the tax authorities in respect of overpayments in the prior year.

Net cash flows from operating activities for the year ended September 30, 2018 increased by £10 million, or 3.8%, to £271 million compared to £261 million for the year ended September 30, 2017, primarily as a result of tax payments during the year ended September 30, 2018 being offset by certain tax repayments received from the tax authorities in respect of overpayments in the prior year and capital allowance claims.

Net Cash Flows from Investing Activities

Net cash flows from investing activities for the 13 weeks ended December 28, 2019 was a cash outflow of £19 million compared to a cash outflow of £16 million for the 13 weeks ended December 29, 2018. The change primarily reflects higher Ei Group Capital Expenditure of £23 million in the 13 weeks ended December 28, 2019 as compared to £19 million in the 13 weeks ended December 29, 2018.

Net cash flows from investing activities for the year ended September 30, 2019 was a cash inflow of £297 million compared to a cash outflow of £15 million for the year ended September 30, 2018. The change primarily reflects the impact of proceeds from the disposal of 354 assets under the Ei Group Commercial Properties segment in the year ended September 30, 2019.

Net cash flows from investing activities for the year ended September 30, 2018 was a cash outflow of £15 million compared to a cash inflow of £20 million for the year ended September 30, 2017. The change primarily reflects lower amounts received from the disposal of properties in the year ended September 30, 2018 of £66 million compared to £100 million received from the disposal of properties in the year ended September 30, 2017, due to lower disposal activity in the year ended September 30, 2018.

Net Cash Flows from Financing Activities

Net cash outflows from financing activities for the 13 weeks ended December 28, 2019 decreased by £9 million to £17 million compared to £26 million during the 13 weeks ended December 29, 2018. The decrease in cash outflows primarily reflects reduced interest payment of £27 million (compared to £30 million during the 13 weeks ended December 29, 2018), reclassification of lease payments as financing cash flow pursuant to the adoption of IFRS 16 by Ei Group, no payments towards Ei Group's share repurchase program (compared to £11 million during the 13 weeks ended December 29, 2018) partially offset by reduced cash received from drawing under relevant loan facilities.

Net cash outflows from financing activities during the year ended September 30, 2019 increased by £297 million to £546 million compared to £249 million during the year ended September 30, 2018. The increase in cash outflows primarily reflects net loan repayments by Ei Group of £330 million during the year ended September 30, 2019 (compared to £66 million in 2018), including the full prepayment of the Class A3 Unique Securitized Notes and part prepayment of the Class A4 Unique Securitized Notes, and net share repurchases of £63 million, primarily relating to a share buyback program carried out by Ei Group in the year ended September 30, 2019.

Net cash outflows from financing activities during the year ended September 30, 2018 decreased by £26 million to £249 million compared to £275 million during the year ended September 30, 2017. The decrease in cash outflows primarily reflects interest paid of £143 million (compared to £149 million in 2017), net loan repayments of £66 million compared to £77 million in 2017), net share repurchases of £21 million (compared to £16 million in 2017), bond purchases of £5 million (compared to £0 in 2017) and refinancing costs of £14 million (compared to £33 million in 2017).

Ei Group Capital Expenditure

The following table presents, for the periods indicated, Ei Group Capital Expenditure:

(£ millions)	Year ended September 30, 2017	Year ended September 30, 2018	Year ended September 30, 2019	For the 13 weeks ended December 29, 2018	For the 13 weeks ended December 28, 2019
Ei Group Growth Capital Expenditure	48	49	50	13	17
Ei Group Publican Partnerships	20	19	14	3	6
Ei Group Managed Pubs	26	27	35	10	10
Ei Group Commercial Properties	2	3	1	—	—
As a percentage of total Capital Expenditure(%)	*60%*	*60%*	*58%*	*71%*	*74%*
Ei Group Letting and Maintenance Capital Expenditure	32	32	37	6	6
As a percentage of total Capital Expenditure(%)	*40%*	*40%*	*42%*	*29%*	*26%*
Ei Group Capital Expenditure	**80**	**81**	**87**	**19**	**23**

Ei Group's capital expenditure is focused both on maintaining and enhancing the quality of its pub estate.

For the 13 weeks ended December 28, 2019, Ei Group Growth Capital Expenditure of more than £20,000 was made in a total of 104 pubs. Based on the total Ei Group Growth Capital Expenditure of £17 million for the 13 weeks ended December 28, 2019, £10 million was made in Ei Group Managed Pubs and £6 million was made in Ei Group Publican Partnerships. For the 13 weeks ended December 29, 2018, Ei Group Growth Capital Expenditure of more than £20,000 was made in a total of 78 pubs. Based on the total Ei Group Growth Capital Expenditure of £13 million for the 13 weeks ended December 29, 2018, £10 million was made in Ei Group Managed Pubs and £3 million was made in Ei Group Publican Partnerships.

For the year ended September 30, 2019, Ei Group Growth Capital Expenditure of more than £20,000 was made in a total of 403 pubs. Based on the total Ei Group Growth Capital Expenditure of £50 million for the year ended September 30, 2019, £35 million was made in Ei Group Managed Pubs, £14 million was made in Ei Group Publican Partnerships and £1 million was made in Ei Group Commercial Properties. For the year ended September 30, 2018, Ei Group Growth Capital Expenditure of more than £20,000 was made in a total of 506 pubs. Based on the total Ei Group Growth Capital Expenditure of £49 million for the year ended September 30, 2018, £27 million was made in Ei Group Managed Pubs, £19 million was made in Ei Group Publican Partnerships and £2 million was made in Ei Group Commercial Properties. For the year ended September 30, 2017, Ei Group Growth Capital Expenditure of more than £20,000 was made in a total of 516 pubs. Based on the total Ei Group Growth Capital Expenditure of £48 million for the year ended September 30, 2017, £26 million was made in Ei Group Managed Pubs, £20 million was made in Ei Group Publican Partnerships and £2 million was made in Ei Group Commercial Properties.

Ei Group Capital Expenditure has historically been spread generally evenly between the two half-year periods of a given year.

Stonegate Group Capital Expenditure for the 28 weeks ended April 12, 2020, includes capital expenditures made in respect of Ei and its subsidiaries for the period from March 3, 2020 to April 12, 2020. The following table presents, Ei Group Capital Expenditure for the period from December 29, 2019 to March 2, 2020:

(£ millions)	For the period from December 29, 2019 to March 2, 2020
Ei Group Growth Capital Expenditure	14
Ei Group Publican Partnerships	5
Ei Group Managed Pubs	9
Ei Group Commercial Properties	—
As a percentage of total Capital Expenditure(%)	*74%*
Ei Group Letting and Maintenance Capital Expenditure	5
As a percentage of total Capital Expenditure(%)	*26%*
Ei Group Capital Expenditure	**19**

Liquidity

For the periods under review, Ei Group's key sources of liquidity have been cash flows from operations, the proceeds of the Ei Corporate Bonds and the Unique Securitized Notes, proceeds from the disposals of pubs and proceeds from other financing activities. Ei Group's capital allocation framework aims to ensure that all priority calls upon cash flows are satisfied, including corporation tax, interest, scheduled debt amortization and other debt refinancing objectives, followed by ongoing investment in its business.

Cash flow from operations and proceeds from pub disposals are Ei Group's key sources of liquidity. As of December 28, 2019, Ei Group had £1,175 million of Ei Corporate Bonds outstanding which are non-amortizing, a vast majority of which are secured against ring-fenced portfolios of freehold pubs and with fixed interest rates averaging approximately 6.5%. The Ei Corporate Bonds have maturities ranging from 2021 to 2031. Following the Transaction, the Ei Corporate Bonds have been redeemed in full (together with any accrued and unpaid interest and redemption premium). See "Summary—Corporate and Financing Structure" and "Use of Proceeds."

As of December 28, 2019, Ei Group had outstanding £683 million of the Unique Securitized Notes. The indebtedness owed under the Unique Securitized Notes is required to be repaid in accordance with agreed amortization schedules up to and including the final maturity of the respective notes. As of March 28, 2019, Ei Group had paid £165 million ahead of the scheduled amortization. Operational cash generated from Unique Group has been used to meet this scheduled amortization of the Unique Securitized Notes. The Unique Securitized Notes amortize over a period to 2032 and have interest rates of between 5.7% and 7.4%. In connection with the Transaction, the indebtedness owed under the Unique Securitized Notes have been rolled over. Ei Group also has access to a renewable committed liquidity facility for a term of 364 days to meet its payment obligations under the amortization schedule in the event that it has insufficient funds to meet the payment. As of December 28, 2019, the amount available under the liquidity facility was £152 million. See "Description of Other Indebtedness—Unique Securitized Notes." In October 2016, Ei Group replaced a £138 million revolving credit facility with the £120 million Ei Group Revolving Credit Facility, commitments under which were increased to £140 million in March 2017 and to £150 million in August 2018. As of December 28, 2019, Ei Group had borrowings of £20 million under the Ei Group Revolving Credit Facility. Following the Transaction, the Ei Group Revolving Credit Facility has been repaid in full and cancelled. See "Summary—Corporate and Financing Structure" and "Use of Proceeds."

Post-retirement benefits

Ei Group makes defined contribution payments to employees' own pension plans. RetailLink Management Limited (a subsidiary company that has now been liquidated) established a pension plan for its employees in January 1999. The plan has a defined contribution and defined benefit scheme. The plan is now closed to new members and for the future accrual of benefits. For additional details, see Note 27 of the financial statements for the financial year ended September 30, 2019.

Off-Balance Sheet Arrangements

As of December 28, 2019, Ei Group has no off-balance sheet arrangements.

Financial Risk Management

The principal risks arising from Ei Group's current financial instruments is summarized below.

Interest Rate Risk

Ei Group currently finances its operations through a combination of trading cash flows, bank borrowings, bonds and disposals. Bank borrowings and cash balances attract interest at a floating rate. Ei Group's objective is to manage exposure to changes in interest rates. This exposure is managed by borrowing the majority of debt at fixed rates.

Liquidity Risk

The primary liquidity risks to Ei Group are the requirements to meet all on-going finance costs, repay the principal amounts of their debt as they fall due, fund the cash flow requirements of the business and comply with financial covenants. This includes the risk that amounts may not be able to be refinanced, if required, due to adverse market conditions.

Ei Group seeks to manage financial risk to ensure sufficient liquidity is available to meet its foreseeable needs. Ei Group makes quarterly payments of interest on the Unique Securitized Notes and principal amounts on the amortizing series of Unique Securitized Notes and made half-yearly payments of interest on the Ei Corporate Bonds. See "—Liquidity and Capital Resources."

Currency Risk

All of Ei Group's revenue and the majority of its costs are generated in pounds sterling and involve little or no currency risk.

Credit Risk

Ei Group's principal financial assets are cash and cash equivalents, trade receivables and other receivables. The credit risk associated with cash and cash equivalents is limited. Ei Group's objective is to minimize this risk by carrying out credit checks where appropriate. The amount of trade and other receivables included in the balance sheet are net of an expected credit loss provision. Ei Group has adopted the simplified impairment model to measure the expected lifetime credit losses on its trade receivables. Ei Group analyzes its historic bad debt experience to create an ageing profile which it then applies to its trade receivables balance as at the reporting date and writes off its trade receivables when it has no reasonable expectation of recovery of the debt. The credit risk associated with these is minimal. Ei Group has no significant concentration of credit risk.

Selected Significant Judgements and Estimates

The preparation of the consolidated financial statements in accordance with IFRS 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 an applicable period.

Ei Group 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.

IFRS 16 (*Leases*) was published on January 13, 2016 by the International Accounting Standard Board and Ei Group began applying IFRS 16 beginning the 13 weeks ended December 28, 2019. Ei Group is required to make certain judgments, estimates and assumptions in connection with the adoption of IFRS 16. See "—Changes in Accounting Policy." The other estimates and assumptions that have the most significant effect on the amounts recognized in Ei Group's financial statements are discussed below. For a more comprehensive explanation of the accounting policies used in the preparation of Ei Group's consolidated financial statements, refer to Note 1 of Ei Group's financial statements for the year ended September 30, 2019, included elsewhere in this Offering Memorandum.

Property, Plant, and Equipment

Licensed land and buildings are held at their fair value, and landlord's fixtures and fittings and other assets are held at cost less accumulated depreciation. Ei Group's licensed land and buildings recognized in property, plant and equipment, are revalued each year by external valuers or employees who are professionally qualified to carry out such valuations.

Surpluses arising from the revaluation exercise are taken through other comprehensive income to the revaluation reserve except where they reverse a revaluation decrease relating to the same asset previously recognized as an expense in the income statement. Any deficit arising from the revaluation exercise is taken through other comprehensive income to the revaluation reserve to the extent that there is a surplus in place relating to the same asset. Any further decrease in value is recognized in the income statement as an expense.

Freehold land is not depreciated. Freehold buildings are depreciated so as to write off the difference between their carrying value and residual value over their useful economic life of 50 years. Residual value is reviewed at least at each financial year end and there is no depreciable amount if residual value is the same as, or exceeds, book value. Landlord's fixtures and fittings are split into two categories, long-life landlord's fixtures and fittings and short-life landlord's fixtures and fittings. Both are held at cost less accumulated depreciation. The useful economic life of additions in the form of long-life landlord's fixtures and fittings has been calculated at 30 years and additions to short-life landlord's fixtures and fittings has been calculated at five years. Depreciation is charged on a straight line basis to write off the total cost less residual value over the useful economic life.

Properties held under finance leases are depreciated on a straight line basis over the shorter of the remaining lease term and their useful economic life of 50 years. Depreciation is provided on other categories of property, plant and equipment over three to 50 years on a straight line basis to residual value.

Property, plant and equipment are reviewed annually for indicators of impairment. Where any indicators are identified, assets are assessed fully for impairment. Impairment occurs where the recoverable amount of the asset is less than its carrying amount. Recoverable amount is the higher of an asset's fair value less costs to dispose and value in use. Any impairment loss is treated as a revaluation decrease to the extent that a surplus exists for the same asset, and thereafter as an expense in the income statement.

Goodwill Impairment

Goodwill is not amortized but is tested for impairment annually, or more frequently where events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is stated at cost less any impairment. Goodwill has been allocated to individual properties based on a relative value and on disposal of a property, this attributable amount of goodwill is included in the determination of profit or loss on sale. For the purpose of impairment testing, goodwill is allocated to cash generating units that are consistent with Ei Group's operating segments. These calculations require assumptions to be made regarding projected cash flows as adjusted for the forecast level of disposals. The key assumptions in these estimates are trading margin, rent projections, and levels of working capital, as well as the choice of an appropriate discount rate in order to calculate the value-in-use of cash flows. Key assumptions have been assigned values by management using estimates based on past experience and expectations of future changes in the market. See Note 12 to Ei Group's financial statements for the year ended September 30, 2019 included elsewhere in this Offering Memorandum and "—Description of Key Income Statement Line Items—Goodwill Impairment." Actual outcomes could vary from these estimates.

Leases

Leases where Ei Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Properties acquired under finance leases are capitalized at the lower of their fair value and the present value of future minimum lease payments. The corresponding liability is included in the balance sheet as a finance lease payable. Properties held under finance leases are revalued along with the freehold estate on an annual basis. Lease payments are apportioned between finance charges and reduction of the lease liability so as to obtain a constant rate of interest on the remaining balance of the liability. Finance charges are taken as an expense to the income statement.

Leases where substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals paid under operating leases are charged on a straight line basis to the income statement over the lease term. The fair value attributed to properties acquired as part of business combinations that are held as operating leases are classified in the balance sheet as intangible assets: operating lease premiums within non-current assets and are amortized over the lease term.

Ei Group has previously entered into sale and leaseback transactions where licensed land and buildings have been sold and Ei Group has immediately entered into a lease agreement with the acquiree. These land and buildings have been classified as operating leases. They are no longer included within property, plant and equipment and the rentals paid are charged on a straight line basis to the income statement over the lease term.

INDUSTRY

UK Pubs and Bars Overview

We operate in the pubs and bars sector in the United Kingdom, which continues to be an important part of the wider UK drinking-out and eating-out market. In the United Kingdom, this sector consisted of approximately 47,600 pubs and bars at the end of 2018, according to the BBPA.

The COVID-19 Pandemic

The pubs and bars sector in the United Kingdom has seen significant disruption since the outbreak of the COVID-19 pandemic and the subsequent government intervention, which resulted in the temporary closure of pubs and bars across the United Kingdom beginning on the evening of March 20, 2020. It is expected that until there is a long term solution to the COVID-19 pandemic, it will continue to have an impact on the pubs and bars sector in the United Kingdom. As such, we believe that it is currently premature to quantify the magnitude and consequences of any long-term impact on the industry. As a result, this section discusses industry trends, market data and certain forecasts based on the long term historical track record in a pre-COVID-19 environment, and we expect the key elements and drivers to continue to apply.

Overview of Ownership in the United Kingdom

Public houses have been part of British culture for more than two millennia. More recently, about three decades ago, the pub industry was dominated by six large brewers (Scottish & Newcastle, Allied, Bass, Courage, Grand Met and Whitbread) who controlled just over half of all UK pubs and accounted for approximately 75% of UK beer production.

In 1989, a report drafted by the Monopolies and Mergers Commission found that a complex monopoly existed in favor of brewers who owned tied houses or who had tying agreements with free houses in return for loans (brewer loans) at favorable interest rates. Subsequently, The Supply of Beer (Tied Estate) Order 1989 (“the Beer Order”) was passed to force the sale of 50% of breweries’ pub estates in excess of 2,000 units by November 1992. This led to the development of the independent pub company, which took over ownership of many of these pubs from the breweries. These pub companies typically negotiate agreements with the breweries for the supply of beer and then on-sell that beer to the pubs they own, thus intervening in the direct sale of beer from breweries to pubs.

Since then, pub companies have increased their ownership of pubs in Britain. In 2006, pub companies owned approximately 52% of UK pubs, with the two largest, Punch Taverns and Ei Group, controlling approximately 30% of the UK pub sector. The Beer Order were revoked in 2002 pursuant to the Supply of Beer (Tied Estate) (Revocation) Order 2002, following a review by the Office of Fair Trading (OFT), which found that the sector had undergone significant changes in ownership, such that concerns relating to brewers’ vertical integration and the Beer Order were not relevant anymore.

The ownership of pubs in the United Kingdom is broadly spread across three main categories of owners:

- Brewer-owned pubs, typically operating under a ‘tied contract’;
- Independent pub companies that either manage pub operations by themselves or lease the pubs out to tenants; and
- Independent pub owners, who are typically individuals with either a single pub/bar or a small portfolio of sites.

Operational Formats

The UK pub sector can be categorized into a number of distinct business models, across pubs and bars. The pubs’ business models include managed, leased and tenanted (of which some are commercial or free-of-tie properties) and independently owned, constituting approximately 19%, 33%, and 48%, respectively, of UK pubs for 2018 according to the BBPA. For bars, a variety of late night offerings exist, differentiated by the tempo of the environment, variety of product offerings and target consumer base.

Managed Pubs

Managed pub companies directly employ central management and local staff and have complete control over the sales format and product offering within each pub. As a result, they benefit from the entire revenue, are responsible for all costs, and ultimately retain all of the net income generated from their operations. Managed pub operators have performed particularly well within the pub industry over the past few years and have improved their market share compared to leased and tenanted pub operators and independent pubs. Managed pubs also typically generate higher gross margins than publicans or independent pubs, as leased and tenanted pubs are generally required to purchase their beer at a premium from the pub companies that lease the pubs to them, while independent pubs lack the scale to buy on terms as good as those from which large pub companies benefit. Apart from Stonegate Group, key operators within the managed sector include Mitchells & Butlers and JDW, as well as some of the estates of Marston's, Greene King, Young's and Fuller's.

Operator Agreement

Pubs governed by operator agreements are typically run in a quasi-managed/franchised model, whereby the pubs are owned by the pub company and are run by self-employed operators who receive a percentage of revenue generated and are responsible for organizing and paying the staff. The remaining revenue, other costs and management responsibility belong to the pub company. These sites benefit from having the managed pub knowledge base with respect the areas of pricing, marketing, range and scale while simultaneously benefitting from local operators who are embedded in the communities they serve.

Leased and Tenanted Pubs

Leased and tenanted pubs are typically owned by a pub company or brewer but are operated by a third party tenant or lessee, who normally pays below market rent to the owner and is normally contractually obligated to purchase the majority of its supply of drink products (in particular, beer) from the owner, an arrangement known as the "tie." Tied publicans typically enjoy support and certain benefits from pub companies as part of the arrangement, such as marketing advice, capital investments or training courses. Importantly, the publican also benefits from receiving living accommodation above the pub, allowing that person to cover quiet trading hours without having to employ anyone. While the publican rents the building and fixtures and purchases the drinks from the pub companies, the pub companies have limited direct influence on revenue generation (though there can be ways to incentivize volumes sold through beer discounts) and limited exposure to the costs of the pubs, as the pubs effectively operate independently and are responsible for their own operating costs (i.e., labor, food/drink, energy and overheads). Following the acquisition of Ei Group, we are one of the largest leased and tenanted pub companies in the United Kingdom. Our main competitors in the leased and tenanted pubs segment are Star Pubs & Bars, Punch Taverns, Greene King and Marston's.

In July 2016, the Pubs Code introduced the MRO option to allow tenants to opt to pay rent at a free-of-tie commercial rate without requiring them to purchase drinks from the pub company. See "Ei Group's Business—Regulation—The Pubs Code and Market Rent Only (MRO)." These leases tend to be comparable to regular commercial real estate leases with upward rent reviews only. The typical lease duration for commercial properties is 10 years or less.

Independently Owned Pubs

Independently owned pubs (sometimes known as "freehouses") are generally smaller, standalone pubs owned by private individuals who have free rein over the products offered. Their average revenue is generally similar to tenanted pubs.

Bars

Bars are typically grouped into operating formats defined in part by their high or low tempo environments, whether they are accompanied by music and when their peak operating hours and closing times are. These venues are predominately drink-led, but may have a limited food offering. Further subdivision depends on the type of offering provided, which include late night bars, cocktail bars, wine bars, craft bars, other specialist bars and student unions or bars.

Typical Elements of Basic Pub Agreements

The table below sets forth the distinguishing characteristics typical of the most common types of pub agreements in the United Kingdom:

Operating Model	Managed	Operator Agreement[(1)]	Leased and Tenanted	Free-of-tie	Independent
Property owner	Pub company	Pub company	Pub company	Pub company	Pub owner
Income	Pub company responsible for all revenue and costs	Pub company	Lessee and tenant pays to pub company: (i) market rental income; (ii) a margin on tied drinks and (iii) share of machine profits	Lessee pays market rental income to Pub company	Pub owner responsible for all revenue and costs
Employee and pub management	Pub company responsible for all personnel costs	Pub operator	Lessee and tenant	Lessee	Pub owner responsible for all personnel costs
Supply arrangement	Drinks sourced and supplied through pub company	Pub company	Lessee and tenant purchases drinks through pub company	Lessee purchases drinks through supplier of own choice	Pub owner purchases drinks through supplier of own choice
Repairs	Pub company	Pub company	Lessee and tenant/ shared with pub company	Lessee	Pub owner

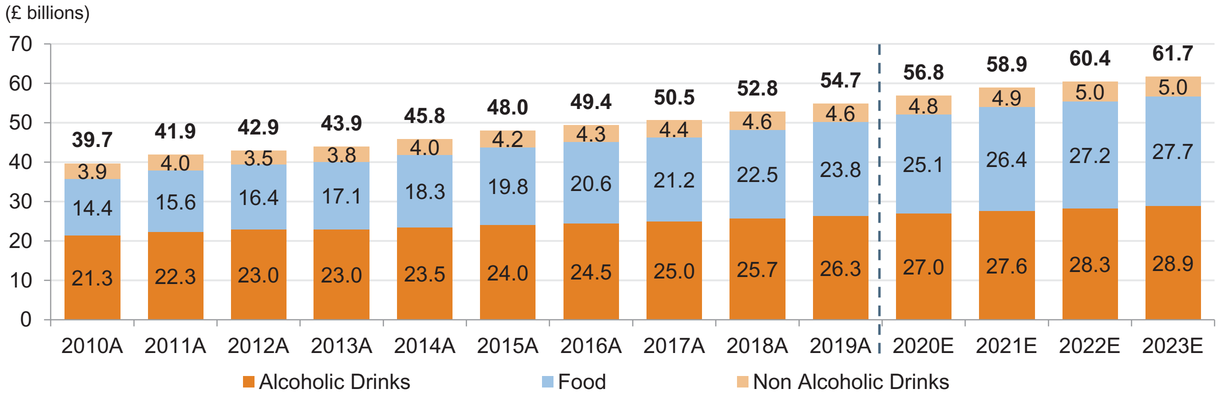
(1) Our Craft Union format operates under the operator agreement model.

Market Overview and Competitive Landscape

Historical and Current Market

According to CGA, the total UK food and drinks market in outlets that have a license to sell alcohol on the premises (the "on-trade" market) is estimated to have reached £54.7 billion in sales in 2019, increasing by approximately 38% in value of sales from 2010 to 2019. During the same period, a reduction in the total number of operating pubs and bars was observed, leaving the remaining pubs and bars to benefit from a more balanced market position, capturing customers from those venues that closed down. Average selling prices have increased as a result of factors such as the premiumization of drink offerings and underlying inflation. Further growth in pub revenues is expected from increased food sales and higher traffic as a result of entertainment offered in pubs, such as sporting events or live music. According to CGA, the total on-trade food and drinks market is expected to grow at a CAGR of 2.9% between 2019 and 2023. CGA has not revised its estimated forecasts in light of the impact on the UK pubs and bars sector of the COVID-19 pandemic, and we cannot assure you that these forecasts will remain relevant, and will not be subject to change, as the effects of the COVID-19 pandemic on this sector become more apparent.

On-trade UK Food and Drinks Market Value (£ billions)



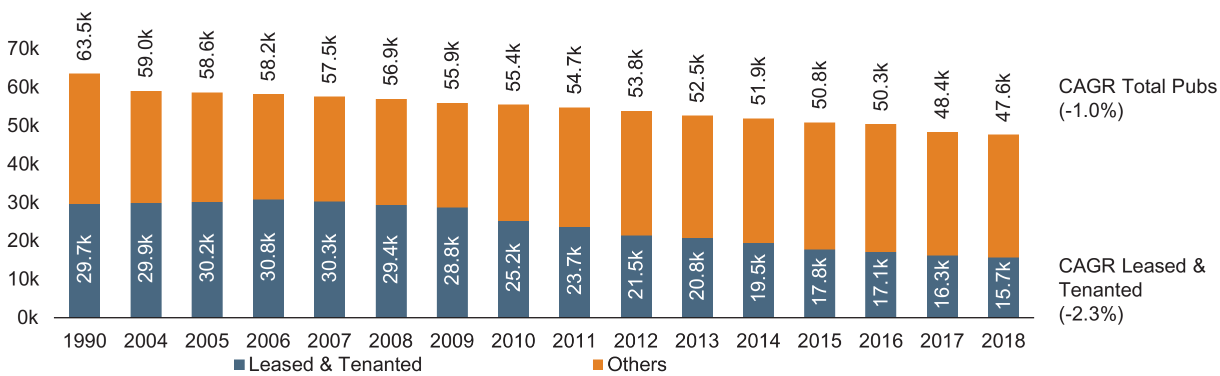
Source: CGA

(1) Results post 2017 are based on an updated quality model from CGA.

Supply of Pub and Bars

The UK pubs and bars sector has historically been overcrowded with a number of unprofitable sites, which has led to a long-term decline in the supply of pubs and bars, resulting in a more balanced market where the remaining profitable estates have won customer and revenue shares from those that have exited the market. According to BBPA, supply has decreased from 63,500 sites in 1990 to 47,600 sites in 2018. Within this trend, smaller leased and tenanted pubs in non-prime locations closed down at a faster rate than pubs in the broader sector, resulting in pub operators selling off the less profitable parts of their estates. It is expected that pub operators will continue to close or sell unprofitable sites in the future (albeit at a slower rate), providing the stronger, more resilient pubs the opportunity to increase market share. According to BBPA, the number of leased and tenanted sites saw a decline of 24.7% over the five-year period from 2013 to 2018, with managed pubs growing 22.7% over the same period. This demonstrates that pub companies are recognizing the benefit of being able to directly invest in and operate their estates, including each estates' approach to branding, through a managed operating model, as opposed to relying on their tenants to do so under the leased and tenanted operating model.

Historical Supply of Pubs and Bars



Source: BBPA

Despite a reduction in the number of leased and tenanted pubs, revenues are still rising for these pubs, evidenced by underlying actual market value growth of £221 million over the last two years according to CGA. This growth has been driven by a number of factors, including those discussed herein. Growth in the leased and tenanted sector has occurred across Great Britain ("GB") with 1.6% growth in total long alcoholic drinks (i.e., draught drinks such as beer and cider) sold in 2019 compared to 2018. Regional growth outside of London has remained strong, especially in the North East England, Yorkshire and West England, where growth in total long alcoholic drinks sold in 2019 reached 4.0%, 4.6% and 2.3%, respectively, across the leased and tenanted market. Further resilience in the leased and tenanted sector is evidenced by CGA's July 2019 BrandTrack survey, which shows that one in four GB consumers have visited a leased and tenanted pub in the past six months, equating to 12 million total customers over such period. Consumers also visited a leased and tenanted pub on average 4.7 times over the same six-month period, which is 24% more frequent than their visits to non-tenanted pubs during the same period.

Location Based Demand

Within the pub and bar sector, larger and higher quality pubs, located in prime central locations and high streets in larger towns and cities, have benefited from the reduced overall supply of pubs and bars nationally and recent population growth within city centers. According to Experian, between 2014 and 2019, a population growth of 3% was seen within city centers across the United Kingdom. Our target locations consist of the top 100 towns, excluding London, with the most number of pubs from our combined group's estate in town centers. Pubs in such target locations represented approximately 50% of Stonegate Group's total estate as of April 12, 2020, and approximately 25% of Ei Group's total estate as of April 12, 2020. Overall population growth is reinforced by the construction of new developments, which are replacing retail outlets within city center locations. These developments have been built at twice the rate in our target locations when compared to Great Britain as a whole, demonstrating our exposure to more attractive trading locations that benefit from increased footfall. Regionally, population growth from 2014-2019 was even more pronounced, with Stonegate Group's East Midland centers growing by 18.9% and its centers in North East England growing by 19.2%. City centers are therefore continuing to receive investment and drawing an increased number of target customers that reside within close proximity to pubs and bars, increasing access and ease of use for those that previously commuted or lived in suburban areas.

The town centers and high streets are also becoming increasingly diversified through the introduction of more late night offerings (typically operated in bar formats), where the venues focus on differentiated forms of entertainment and events from the pub sector, hence appealing to an additional segment of customers within the broader drinking out market. We have strong operations in both of these segments, and we believe we can increase our revenues with access to two different demographics and protect against potential challenges in one segment. Pub and bar operators also benefited from revenue concentration; that is, a smaller number of pubs and bars now share the same total revenue that was previously fragmented across a larger number of pubs and bars. This is in comparison to the casual dining sector, which has continued to face an oversupply.

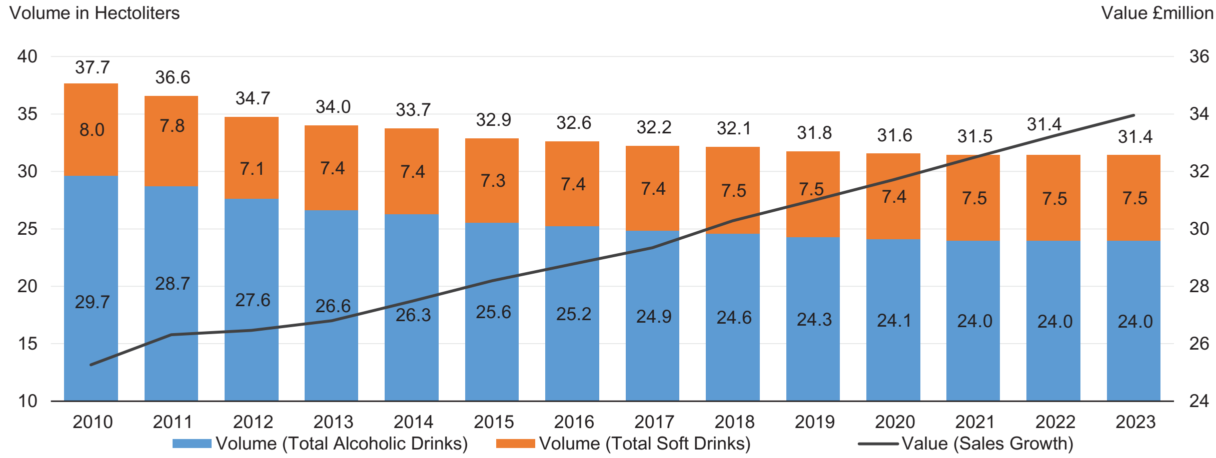
Pubs and bars in the United Kingdom stand to benefit from the governments' ongoing recognition of the role of the high street and town centers to the communities and local economies. In this regard, the government announced, in its October 2018 budget, the introduction of the 'Future High Streets Fund', which falls within the £3.6 billion 'Towns Fund' launched by the government to support towns across England. The initiative seeks to utilize £1 billion of funding to help areas improve transport and access into town centers, convert empty retail units into new homes and workplaces, and invest in vital infrastructure, aiming to bolster the overall economy and drive local growth in these areas. The government announced in August 2019 that an additional 50 towns would benefit from the 'Future High Streets Fund'. With our significant presence in town centers, we believe that we are well positioned to benefit from this funding.

Furthermore, student towns have typically produced more consistent demand than non-student towns, due to the significant spend contribution that they bring to the area. As of April 12, 2020, approximately, 29% of all university campuses in the United Kingdom are within Stonegate Group's target locations (i.e., the top 100 towns, excluding London). The breadth and diversity of our formats will allow us to remain aligned with consumer demand as the population mix in city centers continues to marginally change due to a growth in the number of students and young professionals.

Volume

During a period of higher UK pub sector revenues in which the overall market value has continued to increase, total alcohol volumes have been falling as a result of a combination of factors. These factors have included lower prices at off-license stores and supermarkets, the smoking ban, the economic recession and a general cultural shift toward opting for premium or craft products over alcohol quantity. Ultimately, these factors have led to lower alcohol consumption. Despite the reduced level of alcohol consumption, the on-trade drinks market remains stable and resilient, with CGA projecting continued sales growth in the coming years. CGA has not revised its estimated forecasts in light of the impact on the UK pubs and bars sector of the COVID-19 pandemic, and we cannot assure you that these forecasts will remain relevant, and will not be subject to change, as the effects of the COVID-19 pandemic on this sector become more apparent.

Total On-trade Drinks Market Volume and Value

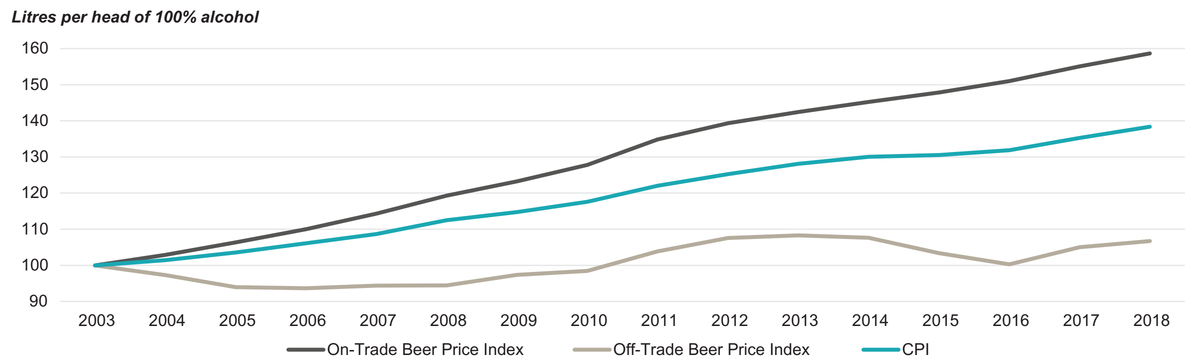


Source: CGA's total drink-led historical and forecasts

Pricing

The on-trade price of beer has significantly outgrown CPI and off-trade prices since 2003. On-trade beer prices have increased by approximately 3.1% annually, whereas CPI and off-trade have increased by approximately 2.2% and 0.4%, respectively, since 2003. The high growth achieved in on-trade prices and the focus on promoting an increased range of offerings, including higher priced cocktails and premium products, are the primary factors that have resulted in growth of total pub revenues despite a fall in volumes.

Beer Prices – On-Trade Vs. Off-Trade

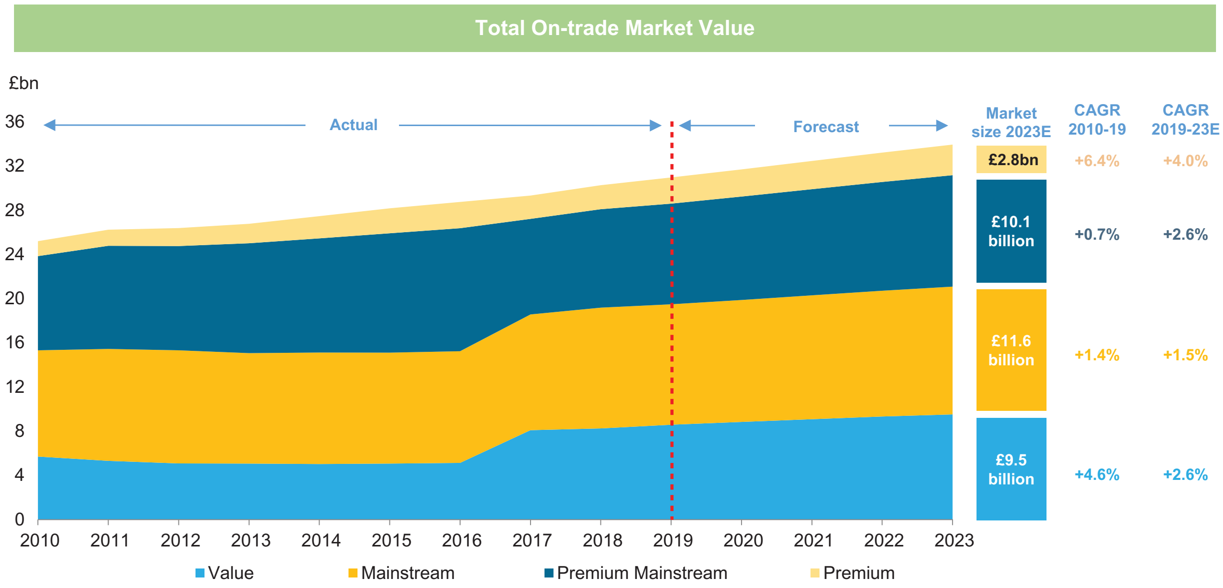


Source: BBPA

Forecast Market Size

CGA separates the on-trade market into four main segments: the value segment, which generally covers venues that draw price conscious customers; the mainstream segment, which generally covers branded and high street venues offering food and drink at mid-range prices and generally draws middle- and high-income customers; the premium mainstream segment, which generally covers experience-driven venues that provide a higher proportion of premium products and the premium segment, which generally covers casual dining outlets and venues delivering high-end drink and food offerings.

Although volumes in the on-trade market are forecast to decrease, the total value of the drinking-out market is forecast to grow at a compound annual growth rate of 2.3% between 2020 and 2023, according to CGA on-trade segment forecasts. The largest segments of the on-trade market (premium, premium mainstream and mainstream), to which we cater, are forecast to grow as evidenced in the CGA chart below. CGA has not revised its estimated forecasts in light of the impact on the UK pubs and bars sector of the COVID-19 pandemic, and we cannot assure you that these forecasts will remain relevant, and will not be subject to change, as the effects of the COVID-19 pandemic on this sector become more apparent.



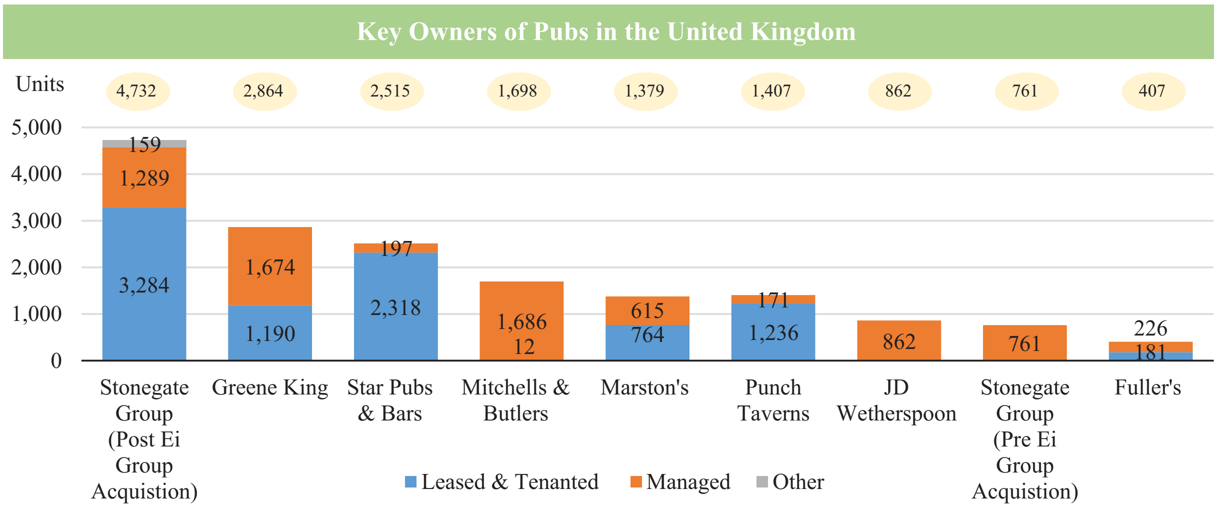
Source: CGA's total drink-led segment forecast

Competitive Environment

The pubs and bars sector in the United Kingdom faces competition from leisure and service providers such as retail outlets for the sale of food and drink and restaurants (in particular casual dining outlets), as well as off-license shops and supermarkets. Pubs and bars have therefore been increasing the breadth of offering in terms of product range, experience-led occasions and access to broader demographics through late night offerings. The wider on-trade food and drinks market can be broadly segregated on the basis of operating models (managed versus leased and tenanted) and revenue mix (food-led versus wet-led). As seen in the market positioning map below, the wet-led market in the purely managed space is less concentrated whereas the casual dining market faces intense competition.

Source: Stonegate Group and CGA

While the pubs and bars sector in the United Kingdom remains quite fragmented, it has undergone periods of consolidation through joint ventures, mergers and acquisitions, which has led to the emergence of certain large competitors with considerable financial and operational resources. We are the largest pub company in the United Kingdom by number of sites, followed by Star Pubs and Bars (Heineken), Greene King, Mitchells & Butlers and Marston's. The chart below highlights our scale in the UK pub sector as of the dates indicated below.



Source: Stonegate Group data as of April 12, 2020, excluding 17 closed sites. All other peers based on CGA database as of March, 2020.

We benefit from scale, diversified operating models, operational expertise, favorable geographic locations, high quality estate and breadth of formats.

Overview of Trends Within the Wider Drinking-Out Market

There are a number of key factors that in our view are driving the forecasted market growth.

Impact of the COVID-19 Pandemic

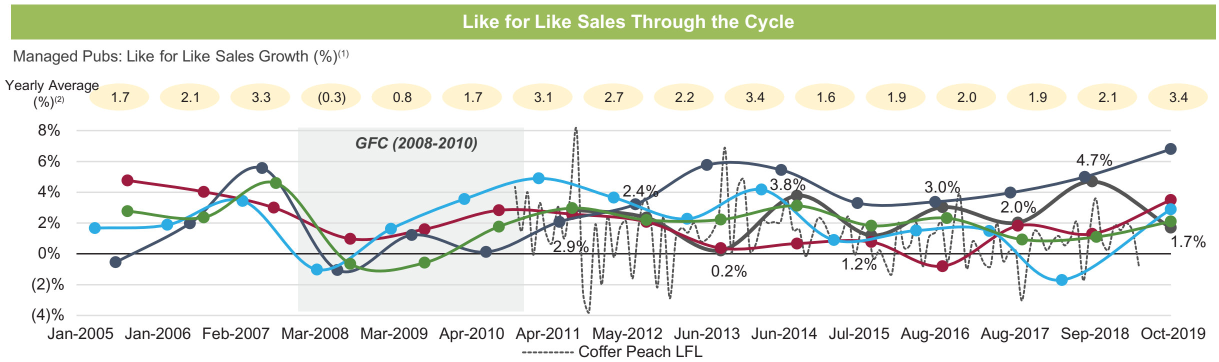
The wider drinking-out market has seen a similar level of disruption to that of the UK pubs and bars sector, with the outbreak of COVID-19 and the subsequent government intervention resulting in the temporary closure of venues that constitute the on-trade market across the UK beginning on the evening of March 20, 2020. It is expected that until there is a long term solution to the COVID-19 pandemic, it will continue to have an impact on the pubs and bars sector in the United Kingdom. As such, we believe that it is currently premature to quantify the magnitude and consequences of any long-term impact on the industry.

Consumer Dynamics and Competitive Environment

Over the past few years, leading managed operators have delivered robust like-for-like sales growth as consumers have continued spending on low-cost items, including pub and bar visits. Consumer confidence levels have generally improved since 2012, as shown by a rise in the UK consumer confidence index. Moreover, disposable income in the United Kingdom has generally been increasing since 2012, according to the Office for National Statistics. This environment has supported sales growth despite uncertainty resulting from the United Kingdom's decision to leave the European Union.

Stonegate Group Adjusted Revenue Growth (Like for Like) compared favorably with the reported like for like sales growth of other managed pub operators for the financial year 2019, which is the last completed financial year of our competitors for which their trading and results of operation were not impacted by the COVID-19 pandemic. For instance, (a) Stonegate Group Adjusted Revenue Growth (Like for Like) for the 52 weeks ended April 1, 2019 was 5.9% compared to 5.1% for Young & Co.'s Brewery during the same period, (b) Stonegate Group Adjusted Revenue Growth (Like for Like) for the 52 weeks ended September 28, 2019 was 1.8% compared to 0.1% for Marston's Destination and Premium division over the same period , (c) Stonegate Group Adjusted Revenue Growth (Like for Like) for the 52 weeks ended April 28, 2019 was 5.6% compared to 2.9% for Greene King's managed pubs over the same period, (d) Stonegate Group Adjusted Revenue Growth (Like for Like) for the 52 weeks ended June 29, 2019 was 3.3% compared to (3.5)% for Revolutions Bars Group over the same period, (e) Stonegate Group Adjusted Revenue Growth (Like for Like) for the 52 weeks ended September 28, 2019 was 1.8% compared to 3.5% for Mitchells & Butlers over the same period, (f) Stonegate Group Adjusted Revenue Growth (Like for Like) for the 52 weeks ended March 30, 2019 was 5.9% compared to 4.9% for Fullers over the same period and (g) Stonegate Group Adjusted Revenue Growth (Like for Like) for the 52 weeks ended July 28, 2019 was 1.8% compared to 6.8% for JDW over the same period.

Furthermore, managed pubs have proven to be relatively resilient in times of macroeconomic concern, as evidenced by the performance of managed pubs through the downturn of the cycle, again highlighting that consumers are expected to continue to visit pubs despite broader economic uncertainty. The below chart provides the like-for-like sales growth of key market players through the cycle:



Source: Publicly available information for peer group, Coffer Peach
(1) Coffer Peach data as m/m change, including new supply
(2) Simple weighted average, excludes Coffer Peach Tracker.

Premiumization

Formats providing premium products, in particular food-led pubs and bars, and pubs and bars providing premium drink options, are driving the underlying recovery in the eating- and drinking-out sector, both in terms of volume and value, with £138 million of actual value increase arising from food-led pubs and bars operating in the leased and tenanted sector over the last two years, according to the CGA. Customer demand for premium drinks such as craft beer, craft cider, micro-distillery spirits, premium mixers and cocktails has been growing. Within the on-trade market, the rapid growth in the popularity of cocktails has been particularly important in increasing the profitability of pubs and bars, driving increased volumes for spirits and allowing pub and bar operators to reposition themselves with higher per unit priced drinks. According to the CGA, strong volume growth has been primarily experienced by gin, sparkling wine, world lager and premium lager with increases of 39.5%, 8.6%, 7.2% and 2.8%, respectively, when comparing year on year volume growth for the period covering September 2018 to September 2019 against the period covering September 2017 to 2018.

Experiential and Leisure Propositions

Consumer trends are now showing a growing interest in differentiated and memorable experience-led offerings. With clear demand for a wider offering and service, leading operators have been upping their entertainment and events to satisfy this shifting consumer preference, including televising major sporting events, hosting music festivals, live music nights, escape rooms, garden games and raffles, all of which serve to retain existing customers, attract the younger adult market (particularly among 18 to 34 year olds) and persuade infrequent pub- and bar-goers to visit more often. Providing better and more complete experiences and leisure-based entertainment in pubs and bars can lead to an increase in footfall and volumes.

All-Day Trading Formats

With the changing profile of the average consumer and a movement to all-day trading, there has been an accompanying shift in demand for particular types of products and site formats. According to the Business Leaders Survey conducted by CGA in 2019, all-day and flexible formats are the second most advantageously positioned format to thrive in the next 12 months based on data collected from the survey. Pubs have proven to be increasingly popular venues for out-of-home dining as customers continue to look for value by choosing pubs over more expensive restaurants when eating out. The food offering increases the footfall in pubs and is an additional growth driver for the overall pub industry. CGA research estimates that the on-trade food market in the United Kingdom is estimated to grow from £23.8 billion in 2019 to £27.7 billion in 2023, at a compound annual growth rate of 3.9%. CGA has not revised its estimated forecasts in light of the impact on the UK pubs and bars sector of the COVID-19 pandemic, and we cannot assure you that these forecasts will remain relevant, and will not be subject to change, as the effects of the COVID-19 pandemic on this sector become more apparent.

Digitalization

Engagement with technology is impacting the way in which pub and restaurant owners interact with their customers, specifically the millennial consumer demographic. The mobile channel is becoming increasingly important, in particular for booking and reservations, enhancing the overall customer experience, engaging with customers outside the guest visit, speeding up payment and real time customer feedback.

Customer Service

Consumers are increasingly focused on food quality and customer service. In a customer engagement survey conducted by CGA in October 2019, 82% of participants identified food quality as a key driver of customer engagement, while 81% and 37% identified services and value for money, respectively, as key drivers of customer engagement. Consumers' demand for high quality and customer service is a result of exposure to better practices in the market as UK pub, bar and restaurant operators are increasing their investments in this area. Based on the Business Leaders Survey conducted by CGA in 2019, 87% of leading pub, bar and restaurant operators identified a high quality customer experience as very important to their success in 2019.

Regulatory Environment

The pubs and bars industry in the United Kingdom is subject to laws and regulations across a variety of operational areas and related activities. These include premise licensing, pub licensing, the rental relationship between tied tenants and large pub companies, alcoholic drinks control, late-night levies, leisure (gaming) machines, employment, minimum wages, competition, health and safety, sanitation, drink driving, data protection and access for the disabled. See "Stonegate Group's Business—Regulation," "Ei Group's Business—Regulation," and "Risk Factors—Risks Related to our Business—Changes in regulations to which we are subject or the introduction of new regulations to which we may become subject could have a negative effect on our business."

STONEGATE GROUP'S BUSINESS

Overview

On March 3, 2020, we completed the Transaction and Ei Group was combined with Stonegate Group. Following the Transaction, on a combined basis, we are the largest pub company in the United Kingdom based on the number of sites (4,749 sites on a combined basis as of April 12, 2020).

The combined group has strong real estate backing based on an estate of predominantly freehold properties (approximately 81% by number of sites and approximately 88% by value on a combined basis as of September 30, 2019) and a combined property asset value of approximately £4.1 billion as of September 30, 2019 (Stonegate Group: £798 million; Ei Group: £3.3 billion). The combined group is well-distributed through the United Kingdom, with a majority of pubs located at high street locations across London and the southeast region of the United Kingdom, and has diverse operating models, formats and brands.

Revenue of the combined group is generated from a variety of sources, including drink and food sales (87.6% of pro forma revenue for the 52 weeks ended September 29, 2019) and rental income (8.6% of pro forma revenue for the 52 weeks ended September 29, 2019). We believe that our diverse and agile business that delivers across operating models, formats and brands, led by Stonegate Group's experienced and reputed management team, will be instrumental in driving revenue growth in the future. Stonegate Group's revenue, operating profit and loss after taxation on a historical basis for the 52 weeks ended September 29, 2019 were £853 million, £19 million and £24 million, respectively, and Ei Group's revenue, operating profit and loss after taxation on a historical basis for the year ended September 30, 2019 were £724 million, £247 million and £209 million, respectively. On a combined basis, Stonegate Group's and Ei Group's revenue for the 52 weeks ended January 19, 2020 and December 28, 2019, respectively, was £1,598 million. Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS 16) on a combined basis for the 52 weeks ended January 19, 2020 would have been £494 million.

We had strong strategic reasons to combine Stonegate Group and Ei Group. The Transaction adds Ei Group's strong and stable publican partnership business to Stonegate Group's leading managed pub business. It provides a significant pipeline of publican partnership pubs that we can convert into managed pubs where we identify value accretive opportunities. The scale of the combined operations presents numerous opportunities, including opportunities to realize significant cost savings through integrating operating models and applying best practices across Stonegate Group and Ei Group. This combination also gives us the ability to take advantage of value arbitrage opportunities that may not have been fully exploited by Ei Group before.

The global outbreak of the COVID-19 pandemic has had a significant effect on our industry and our business. It resulted in the UK government taking unprecedented steps to implement a national lockdown, restricting social gatherings and mandating closure of non-essential businesses, in each case, leading to business slowdowns and shutdowns. Pursuant to a directive of the UK government, our pubs closed for business on March 20, 2020 as part of national efforts to curb the spread of the disease. Our pubs reopened for business on July 4, 2020, and, as of July 19, 2020, we had reopened 77% of our managed pubs subject to government guidance. Late night formats where dancing is a key part of the offer, pubs aimed at the student demographic and most of our Be At One pubs remain closed during this initial phase of reopening. As of July 19, 2020, we believe that our publicans had reopened an estimated 89% of the pubs in our publican partnership estate. While we have seen certain positive early results based on our first week of trading after reopening, the impact of COVID-19 on our industry and our business remains uncertain and will ultimately depend on a number of factors that are beyond our control and cannot be accurately predicted at this time.

Ei Group

Ei Group began trading operations in 1991 with the acquisition of 368 pubs from Bass plc. Prior to the Transaction, Ei Group was the largest pub company in the United Kingdom based on number of sites with 4,028 sites across England and Wales as of December 28, 2019. The Ei Group Property Asset Value was £3,289 million as of September 30, 2019. Its estate consists of high-quality assets, approximately 95% of which, based on value, were freehold properties and approximately 25% of which were located in town centers as of September 30, 2019. Ei Group's revenue, operating profit and loss after taxation on a historical basis for the year ended September 30, 2019 were £724 million, £247 million and £209 million, respectively. Its revenue for the 52 weeks ended December 28, 2019 was £724 million and the Ei Group Underlying EBITDA (excluding the impact of IFRS 16) for the 52 weeks ended December 28, 2019 was

£263 million (adjusted for Ei Group's disposal of 355 commercial properties and 124 assets in the ordinary course in the 52 weeks ended December 28, 2019 described in this Offering Memorandum).

Ei Group operated three main business segments: publican partnerships, managed pubs and commercial properties.

- *Ei Group Publican Partnerships*: Under this segment, Ei Group operated in the leased and tenanted sector through 3,351 pubs, which accounted for approximately 83% of its estate (based on the number of pubs) as of December 28, 2019.
- *Ei Group Managed Pubs*: Under this segment, Ei Group operated two divisions, its Managed Operations division and its Managed Investments division. Its Managed Operations division consisted of 62 pubs as of December 28, 2019 operating under the Bermondsey Pub Company format (covering fully-managed pubs operating nationally with a drink-led retail offering) and 357 pubs as of December 28, 2019 under the Craft Union Pub Company format (covering generally smaller operations run by self-employed operators with a sports, entertainment and drink-led retail offering but no food offering). Its Managed Investments division consisted of 75 pubs as of December 28, 2019, operated as joint ventures with experienced retail partners reflecting a broad mix of operating styles.
- *Ei Group Commercial Properties*: Under this segment, Ei Group had a portfolio of 147 assets as of December 28, 2019, which it operated on a 'free-of-tie' basis. The assets in the Ei Group Commercial Properties segment contributed to the diversification of Ei Group's earnings profile and provided additional recurring rental income. For further information on Ei Group's business model, see "Ei Group's Business."

Stonegate Group

Stonegate Group began its trading operations in November 2010 with the acquisition of 333 pubs from Mitchells & Butlers. Prior to the Transaction, Stonegate Group was the fourth largest managed pub company in the United Kingdom based on number of sites, trading from 760 sites across the United Kingdom as of January 19, 2020. Stonegate Group Property Asset Value was estimated to be £798 million as of September 19, 2019 and its estate included 251 freehold properties as of that date. Stonegate Group's revenue, operating profit and loss after taxation on a historical basis for the 52 weeks ended September 29, 2019 were £853 million, £19 million and £24 million, respectively. Its revenue for the 52 weeks ended January 19, 2020 was £874 million and Stonegate Group Adjusted EBITDA (excluding the impact of IFRS 16) for the 52 weeks ended January 19, 2020 was £141 million.

Stonegate Group's business is highly diversified with a variety of formats. Stonegate Group classifies its pubs as either "branded" or "unbranded", based on each pub's concept and offering. Its branded pubs consist of Be at One, Slug and Lettuce and Venues brands, while its unbranded pubs consist of Proper Pubs, Town Pub and Kitchen, Common Rooms, Classic Inns pubs and City Taverns. By operating its business through a multi-format strategy, Stonegate Group has successfully positioned itself to attract a wide customer demographic while being able to cater to various consumer trends. This diversity in formats and offerings allows it to exist in multiple sites across city and town centers without adversely affecting sales at its pubs in adjacent locations, as opposed to single format operators.

Combined Group

We believe that the Transaction results in a more resilient business for the combined group due to the combined group's diversified operating models comprising publican partnerships, managed pubs and commercial properties, significant asset backing, strong purchasing power based on larger scale, all of which is complemented by Stonegate Group's ability to deliver a market-leading operating performance across the Ei Group's managed estate and publican partnership sites with the potential for conversion to Stonegate Group's managed formats.

The combined group has three main segments:

- *Publican Partnerships*: Publican partnerships form a core operating segment of the combined group, made up of pubs owned or leased by the combined group and operated by publicans as their own businesses. A key feature of the publican partnerships operating model is "tie" arrangements, whereby most publicans have agreed under their lease or tenancy agreements to purchase beer and other beverages through us. We intend to continue to maintain these tie arrangements which, along with rental income, provide resilient and recurring earnings.
- *Managed Pubs*: Managed pubs are largely managed and operated by the combined group and derive their income predominantly from the retail sale of food and drinks, accommodation and gaming machines. The exception being pubs operated under the Craft Union Pub Company format, which are

generally smaller operations managed and operated by self-employed operators under our guidelines for managed pub operations, with a sports, entertainment and drink-led retail offering but no food offering. Our managed pubs are strategically positioned to cater to different customer demographics and price points. Stonegate Group's managed estate forms the majority of the combined group's portfolio of managed pubs.

- *Commercial Properties*: Commercial properties consist of free-of-tie pubs and non-pub properties operated and managed by third-party leaseholders. Commercial properties derive their income predominantly from rental payments and contribute to the diversification of earnings by providing another source of recurring rental income. From time to time, we expect to be able to monetize the value created in commercial properties at attractive multiples.

Our Strengths

Our key credit strengths include the following:

Diverse and market-leading business in the UK pub sector

Combining the inherent strengths of Ei Group and Stonegate Group, we expect to create a diverse and market-leading business in the UK pub sector.

Ei Group brings a high-quality and sustainable pub estate. The quality of its estate is evident in its geographic distribution and overall profile. Geographically, its pubs are favorably weighted toward more profitable areas such as those across London, the southeast region of the United Kingdom and other key cities, large towns and affluent postcodes, which we believe provides higher rental income and higher drinks sales based on higher volume. In terms of estate profile, Ei Group has succeeded in rationalizing its underperforming publican partnership pubs by pursuing a strategy of disposing of a number of these pubs, having halved the size of its publican partnership estate in the last ten years (from 6,820 pubs in 2010 to 3,424 pubs in 2019) and, prior to the impact of COVID-19, we estimated that less than 4% of its publican partnership sites produced an average weekly take of less than £4,000. In recent years, based on the operational flexibility provided by its multi-model estate Ei Group has also succeeded in creating a sustainable pub estate by, among other things, reducing the number of its longer-term tied leases and increasing the proportion of its tied businesses operating under shorter-term tenancy agreements of up to five years in length. These attributes of Ei Group's estate also make it well suited for conversions into Stonegate Group's managed pubs format, which is characterized by pubs that are mainly high street and drink-led and weighted toward the southern region of the United Kingdom, and we expect Ei Group's estate of publican partnership pubs to serve as a long-term pipeline for such conversions.

Stonegate Group brings the experience of, and proven model for, running a successful managed pubs business. Its multi-format strategy is aimed at attracting a wide customer demographic while being able to cater to various consumer trends. It has consistently delivered high returns on investment (Stonegate Group Return on Investment of 35.7%, 35.3% and 35.4% for the 156 weeks ended September 29, 2019, September 30, 2018 and September 24, 2017). Its management, who are the architects of its managed business model, have the knowledge, skill set and experience to run not only a successful managed pubs business but also a publican partnerships business, many of them having spent time working in that area.

By combining the strengths of both entities, we expect to deliver a diverse and market leading business in the UK pub sector. The combined group brings diversity in terms of income sources (rental income, wholesale drink sales and retail drink and food sales), locations (distribution throughout the United Kingdom with a weighting in more profitable areas such as London, the southeast region of the United Kingdom and city and town centers), operating models (leased and tenanted, managed and commercial properties) and formats (branded or unbranded, within the managed pubs segment).

The combined group is the largest pub company in the United Kingdom based on the number of sites. As of April 12, 2020, the combined group had 4,749 sites, compared to 2,864 pubs as of March 31, 2020 for its closest competitor, Greene King plc.

While Ei Group has delivered a significant increase in value since 2015, we believe that combining its estate with Stonegate Group's managed pub business will help unlock the full potential and size of Ei Group's managed pubs business. With the flexibility to apply the format best suited to the demographic trends or customer base of a certain area, we will be able to overlay the appropriate brands and formats across Ei Group's portfolio to maximize the performance of the wider combined estate. Our multiple formats will allow us to maintain a significant presence in growing cities without adversely affecting sales at our pubs in adjacent locations, as opposed to single format operators catering to select target groups.

With diversification and greater scale, we believe that the combined group is better positioned to compete effectively against other market participants, which would benefit all stakeholders, including tenants, employees, customers and local communities.

Strong track record of successfully integrating acquisitions and creating value through cost savings, investments and operational enhancements

We have a strong track record of acquiring and integrating pubs.

We have also succeeded in realizing notable cost savings based on our acquisitions. For example, the acquisitions of Bramwell (2013) and TCG (2015) delivered cost savings of £7 million and £2 million, respectively, on their twelve-month EBITDA at acquisition of approximately £12 million in each case.

In addition to creating value through cost savings, we create value through making investments and operational enhancements in the pubs that we acquire. We have a demonstrable track record of successful capital investments. Since our inception in 2010 and through January 19, 2020, we have refurbished 621 Stonegate Group pubs that we currently operate and have delivered consistently high returns on investment (Stonegate Group Return on Investment of 35.7%, 35.3% and 35.4% for the 156 weeks ended September 29, 2019, September 30, 2018 and September 24, 2017). As of April 12, 2020, we had 124 Stonegate Group pubs in which we have not invested while under TDR Capital's ownership, and we believe that this pipeline, taken together with the sizeable pipeline created by the Transaction, provides strong investment and growth opportunities in the future. We also expect to utilize our knowledge and experience of delivering high returns on investment in relation to acquisitions of under-invested portfolios. For example, in the case of investments we made in the pubs acquired from Bramwell, Maclay and TCG, we delivered returns on investment of 32%, 69% and 50%, respectively.

Significant real estate backing with a majority freehold estate

The combined group has strong real estate backing based on an estate of predominately freehold properties (approximately 81% by number of sites and approximately 88% by value on a combined basis as of September 30, 2019) and a combined property asset value of approximately £4.1 billion as of September 30, 2019.

The Ei Group Property Asset Value was £3,289 million as of September 30, 2019, with its freehold assets accounting for 95% of its total estate based on value. The Ei Group estate is heavily weighted toward the southern region of England, with 52% of the Ei Group Publican Partnerships as of September 30, 2019 located in that region, where property prices are generally higher than the rest of the United Kingdom. Ei Group's estate is largely well maintained. Its capital expenditures on maintenance were £37 million, £32 million and £32 million for the years ended September 30, 2019, 2018 and 2017, respectively. Ei Group has also demonstrated a strong track record of disposals at a significant premium to book value. Over the last ten financial years, Ei Group has disposed of 3,371 sites at an aggregate value of £1,474 million, representing an average premium to book value of 20%. A majority of these disposals were in respect of underperforming assets, indicating the potential for extracting significant value from strategic disposals in the future.

The Stonegate Group Property Asset Value was estimated to be £798 million as of September 29, 2019, covering a managed estate of 760 pubs, comprised of 251 freehold properties. The freehold properties together represented approximately 59% of the Stonegate Group Property Asset Value. Stonegate Group's pubs are also located at attractive geographic locations across the United Kingdom. As of January 19, 2020, 79% of the Stonegate Group sites were located in town or city centers, with the remaining 21% located in suburban areas. Stonegate Group has made substantial investments in its estate. The Stonegate Group Investment Capital Expenditure taken together with the Stonegate Group Maintenance Capital Expenditure was £83 million, £71 million and £82 million for the 52 weeks ended September 29, 2019, the 53 weeks ended September 30, 2018 and the 52 weeks ended September 24, 2017, respectively.

Management has concluded that the COVID-19 pandemic has been a triggering event resulting in management performing an impairment of our property, plant and equipment in the second quarter of 2020. Accordingly, for the 28 weeks ended April 12, 2020, we recorded an impairment charge of £24 million. See "Summary—Recent Developments—Impairment Review."

Favorable cash conversion profile in a steady state of business

Ei Group Cash Conversion was 86.6%, 88.9% and 88.9% for the years ended September 30, 2019, 2018 and 2017, driven by its stable and recurring sources of income and steady increase in EBITDA per pub over time. Ei Group's rental income and its margins from tied drinks sales provide a stable and recurring source of income. The Ei Group Like for Like Publican Partnerships Net Income Growth was 1.2%, 1.2% and 2.3% in the years ended September 30, 2019, 2018 and 2017. Ei Group has also experienced continued growth in its EBITDA per pub since 2013, which has been driven mainly by format conversions, like for like growth across its estate and disposals of its underperforming assets. Ei Group Letting and Maintenance Capital Expenditure also remained broadly consistent over the last three financial years with £37 million, £32 million and £32 million for September 30, 2019, 2018 and 2017, respectively.

Stonegate Group Cash Conversion was 72.8%, 67.2% and 66.5% for the 52 weeks ended September 29, 2019, 53 weeks ended September 30, 2018 and 52 weeks ended September 24, 2017, respectively, driven by its growth over time and favorable returns on investment capital expenditures. The Stonegate Group Maintenance Capital Expenditure has also remained consistent over time (2019: £36 million, 2018: £37 million and 2017: £35 million).

For the combined group, we have estimated that the Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS 16) would have been £494 million for the 52 weeks ended January 19, 2020. We estimate that approximately £80 million of this amount will derive from cost savings that we expect to realize from the combination of Ei Group and Stonegate Group.

Our cash conversion profile has been adversely impacted by the COVID-19 pandemic, primarily due to a significant decline in our EBITDA due to the government-mandated closure of our pubs. In terms of capital expenditure, we currently intend to keep discretionary spending at a minimum, and until our cash reserves recover to desirable levels, we plan to make capital expenditure through a careful and considered approach. For a discussion of our short-term capital expenditure plans, see "Stonegate Group Management's Discussion and Analysis of Financial Condition and Results of Operations—Stonegate Group Capital Expenditure."

Well positioned to outperform in a stable and defensive market

We believe that the combined group's estate is optimally positioned to outperform in terms of market share based on revenue in a stable and defensive UK pub market.

Prior to the COVID-19 pandemic, leading pub and bar operators delivered robust like for like sales growth, as consumers spent on low-priced items in leisure activities and transitioned to premium drinks, which typically provide higher profit margins. Price increases in the on-trade segment, greater range of products and the consumer trend in favor of premium products has resulted in an increase in the pub industry's sales despite a decline in overall volumes. Consumers ordered products that are more expensive and spent more per transaction, as opposed to buying larger amounts of cheaper alcohol. This resulted in an increase in the value of sales in the UK on-trade food and drinks market to an estimated £55 billion in 2019, representing an increase of approximately 38% since 2010. Consumer demand for premium drinks such as craft beer, craft cider, micro-distillery spirits and premium mixers has also been increasing over time, with the best performing drinks categories being premium, while standard categories of drinks performed less favorably. Sales volumes of draught craft beer, gin, draught premium world lager and sparkling wines increased. Collectively, these changes generated higher profit margins for pub operators. If these trends continue once the industry returns to a steady state following the COVID-19 pandemic, we believe that we are well positioned to benefit from these trends for a number of reasons. The diversity of our formats and the range of our products provide us the agility to cater to developing consumer preferences, such as a higher demand for premium products, while also providing natural insulation against changes in consumer preferences. The geographic weighting of our pubs toward more profitable regions of the United Kingdom where revenues per pub are generally higher (e.g., London, the southeast region of the United Kingdom, city and town centers), give us locational advantage in terms of access to more concentrated marketplaces and to consumer demographics that are more likely to spend on premium products. Furthermore, we believe that the UK government's increased focus on ensuring that high streets continue to thrive and receive suitable investments will lead to an increase in footfall at city and town centers, which will also be to our advantage.

The UK pub market has historically been overcrowded. Over the last four decades, a number of unprofitable and smaller leased and tenanted pubs have exited the market. This has led to a long-term decline in the number of pubs and bars in the United Kingdom, with the total UK pub market size contracting from approximately 63,500 pubs in 1990 to approximately 47,600 pubs in 2018, and this trend may continue. While the long term impact of the COVID-19 pandemic on the UK pub market may be difficult to predict, in the short and medium term it may lead to a number of changes in industry trends and practices. For instance, the COVID-19 pandemic may have an adverse impact on sales volumes in pubs located in town or city centers as compared to our pubs located in suburbs. In addition, high streets may offer more real estate opportunities for pubs and bars due to the reduction in retail space and there may be increased demand for stable freehold assets.

We believe that we are well positioned to continue to grow our offering within the UK pub market because of our ability to offer the best format for each specific target market and to exist in multiple sites across city, town centers and suburban sites without adversely affecting sales at our pubs in adjacent locations.

Highly experienced and stable senior management team with strong sponsor backing

The combined group will have a highly experienced and stable senior management team, with an average of over 25 years of relevant experience, combining complementary skill sets in the retail, leisure and service sectors.

The combined group is led by our CEO, Simon Longbottom, who has more than 25 years of experience in the leisure industry. Prior to joining us, Mr. Longbottom was a Managing Director of Pub Partners, the tenanted division of Greene King plc, as well as a Managing Director of Gala Coral's gaming division. He has also held senior positions with Mill House Inns and Mitchell's & Butlers plc. The combined group will also benefit from the strong experience of our Chairman, Ian Payne, MBE, who has more than 40 years of industry experience and helped found Stonegate Group in 2010. Mr. Payne, 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 (which included a large leased and tenanted portfolio), from its inception in May 2001 through to December 2004, and was involved in the sale of Laurel Pub Company to Ei Group. He later became Chairman of Bay Restaurant Group and Town and City Pub Group. In November 2019, he was recognized for his contribution to the sector and received the CGA Peach Industry Icon award.

With the leadership of our strong senior management team, we have grown our revenues from £697 million for the 52 weeks ended September 24, 2017 to £853 million for the 52 weeks ended September 29, 2019 representing an increase of 22.2%. The combined group continues to have strong sponsor backing from TDR Capital, a leading private equity firm, which managed funds of over €10 billion of committed capital as of the end of 2019. On July 17, 2020, TDR Capital contributed equity of £50 million to support our business in light of the challenges presented due to the COVID-19 pandemic. We intend to retain this amount as cash on our balance sheet and to utilize it to finance our business and operational needs as required. We believe that TDR Capital's active support, combined with the depth of our management's industry experience, provides for efficient decision-making and insightful leadership for the combined group.

Our Strategies

As we recover from the impact of the COVID-19 pandemic in the future and approach a steady state of business, we intend to pursue the strategies set out below. For a discussion of the immediate impact of COVID-19 on our business and the various measures we have taken to protect and manage the business, reduce our cost base and protect our liquidity, see "Summary—Recent Developments—Impact of COVID-19."

Business as usual

- **Ei Group Publican Partnerships**: We plan to continue to operate the publican partnerships business acquired from Ei Group, which represented the core segment of Ei Group's business, in its existing form. Ei Group shaped a stronger and more profitable publican partnership business by strategically disposing of underperforming, smaller and secondary assets over time, having halved the size of its publican partnerships estate in the last ten years (from 6,820 pubs in 2010 to 3,424 pubs in 2019). The Ei Group Like for Like Publican Partnerships Net Income Growth was 1.2%, 1.2% and 2.3% in the years ended September 30, 2019, 2018 and 2017. We intend to continue to invest in the publican partnership portfolio to ensure that our publicans have the infrastructure that they require to provide the best customer experience and to increase site profitability.
- **Stonegate Group Managed Pubs**: Our strategy for Stonegate Group's managed pubs business has consistently yielded positive results and we intend to continue to pursue them to the extent that we can in light of the challenges presented by the COVID-19 pandemic. Our existing strategy includes continued capital investments, responsiveness to industry trends, pricing improvements, labor efficiency and the implementation of operational best practices across the Stonegate Group estate. We have discussed them in more detail below.

The success of our existing strategy is reflected in Stonegate Group's growth over time. Stonegate Group's revenue has increased from £558 million in 2014 to £853 million in 2019, representing an increase of 52.9% during this period.

Continue capital investments

We intend to maintain our commitment to capital investment to continue to improve business performance and to further increase market share. As of April 12, 2020, we had 124 Stonegate Group pubs in which we have not invested while under TDR Capital's ownership, and we believe that this pipeline, taken together with the sizeable pipeline created by the Transaction, provides strong investment and growth opportunities in the future. We also intend to continue to make second-round capital investments where we see opportunities to create additional value.

Due to the impact of the COVID-19 pandemic and our efforts to manage cash outflows and preserve and build liquidity, we currently intend to keep our discretionary spending to a minimum. As a result, until our cash reserves recover to desirable levels, our ability to make capital investment may temporarily be limited. However, we plan to continue making opportunistic capital investment through a careful and considered approach.

Continue to concentrate on our core operating initiatives

We intend to deliver sustainable profit growth through our core operational initiatives:

- *Transition to Premium:* Customer demand for premium drink categories has been growing, particularly demand for premium lager and craft beer. In response to this trend, we have consistently increased our offering of premium, higher-value products (including cocktails) to take advantage of increasing demand for premium categories of drinks products. For the 52 weeks ended January 19, 2020, our revenue mix from premium drinks increased 0.5%, 3.1%, and 0.6% in revenue mix from premium lager, premium spirits and cocktails, respectively, compared to the revenue from these products for the 52 weeks ended January 20, 2019. Our mix of formats and our experience running Be At One, a group of premium specialist cocktail bars that we acquired in 2018, we believe positions us well to continue to benefit from this trend.
- *All-Day Formats:* Consumers are increasingly considering food offerings at pubs when deciding where to drink. In response to this trend, we have been developing and improving our food offering to increase footfall and drink sales across our pubs. This has also helped us to generate revenue during periods in the day when drink sales are relatively lower. For example, food accounted for 33% of pre-5:00 p.m. sales across our pubs for the 52 weeks ended January 19, 2020.
- *Creating Experiences:* We deliver memorable customer experiences. We organize a variety of events centered around music and sports to attract and retain our customers.
- *Digitalization and Technology:* To promote brand awareness and customer retention across our core customer age group of 18 to 35 year olds, we have increased our focus on digital marketing. Our brands (including Be At One) currently have over 3 million Facebook followers in aggregate. We have also developed an app, "We Love Sport", which allows customers to place orders while seated at their tables and to discover where select sport events are being screened. Be At One also recently joined the Uber Eats platform, where customers in the vicinity of select bars can get their cocktails delivered to their homes. As a result of the COVID-19 pandemic, we are implementing a number of technology-focused measures at our pubs, including the use of online menus and online booking and payment applications, as well as encouraging contactless payments. We believe that these technology innovations could help drive utilization in our pubs during peak hours and improve our gross margin.

Continue to focus on improving margins

- *Pricing Improvements:* Our pricing strategy focuses on promoting premium products, ensuring that price increments between products are in line with the quality of those products and that each step-up is evenly distributed. We also focus on price rationalization, to ensure that prices are consistent within sites across the same format, and the centralized approval of all promotions, which is aimed at rationalization of discounts.
- *Labor Efficiency:* Our labor strategy focuses on making staffing practices more efficient, with a view to tailoring our staffing requirements based on consumer demand and customer traffic at various times during the day and year. The proactive management of our staffing requirements have been helpful in partially mitigating the impact of National Living Wage and National Minimum Wage.

- *Adoption of Best Practices*: Our acquisitions have given us an opportunity to gain insight into a variety of best practices of our peers. For example, following the First Novus Acquisitions, we brought on board the target's events team that specialized in developing and implementing pre-booking and group event strategies. We believe that this expertise helped us improve our sales margins through the increase in pre-bookings and group events across our estate. We plan to continue to learn from and, where useful, adopt, the best practices of our peers.

Format conversions supported by investment

We intend to utilize Stonegate Group's ability to deliver market-leading operating performance across Ei Group's managed estate and publican partnerships estate. We also intend to utilize the value creation opportunities provided by the operating model of Ei Group's Craft Union pubs. These strategies are discussed in more detail below. However, in light of the impact of the COVID-19 pandemic, our ability to fully implement these strategies may temporarily be limited.

Conversions from publican partnerships to managed pubs

Consistent with the strategy pursued by Ei Group in the past, we expect to continue to convert a number of publican partnership pubs that we have acquired from Ei Group into managed pubs. Ei Group's publican partnership estate provides a large pipeline for these conversions, with an estimated 82% of its publican partnerships estate, becoming available for conversion within the next five years. We have carried out site visits of the entire Ei Group publican partnerships estate to assess the potential for site conversions, and estimate that approximately 28% of the sites visited are suitable for conversion into managed pubs at profitable levels.

We expect these conversions to result in higher profitability. Above a minimum level of sales, managed pubs typically generate incremental profit on a unit basis when compared to a publican partnership pub by retaining the earnings that would otherwise have been retained by publicans in a publican partnership model. Additionally, through our capital investments program, whereby we estimate we will invest, on average, approximately £350,000 to £400,000 per pub to implement these conversions, we would expect to achieve an estimated return on investment of approximately 35% to 50%.

Expand the Craft Union operating model

Craft Union is one of the divisions that Ei Group operated within its managed pubs segment. These pubs are run by self-employed operators who receive a fixed percentage of the revenue generated at these pubs and are responsible for organizing and paying staff. Its operating model provides the benefits of a managed pub model, in terms of control over investments, formats and operations (e.g., in areas of pricing and marketing), while also providing certain benefits of the publican partnership model, in terms of allocating responsibility to the pub operator for labor, staffing and other costs. These pubs tend to be drink-led with no food offering and have a sports focus. We believe that the Craft Union format is particularly well suited for drink-led pubs with lower revenues.

We believe we can create value by improving the existing Craft Union pubs and also by converting existing publican partnership pubs into the Craft Union format. These conversions should be simple to execute and we should be able to achieve scale with speed. We estimate that we will invest, on average, approximately £125,000 per pub to convert publican partnership pubs into Craft Union pubs, which gives us the opportunity to increase profitability at lower levels of capital investment.

Cost reduction by realizing synergies

We believe that there are significant opportunities for cost savings through integrating operating models and applying best practices across Stonegate Group and Ei Group, and by gaining increased scale through the combined operations. Based on our current estimates, we believe we will be able to achieve approximately £80 million in cost savings resulting from streamlined procurement costs, optimized site operations and expected head office synergies. These cost savings have been estimated relative to costs incurred by Stonegate Group and Ei Group on a combined basis for the financial year 2019. We estimate that we will realize approximately £32 million of these cost savings, which represents approximately 40% of our total expected cost savings, by December 2020. We expect to realize the remaining cost savings by December 2021.

Procurement: Stonegate Group and Ei Group are predominantly drink-led businesses procuring comparable products. As a result of the Transaction, our estate has grown from 760 sites as of January 19, 2020 to 4,749 sites on a combined basis as of April 12, 2020, presenting a significant opportunity for us to utilize the scale of the combined business and renegotiate suppliers' terms to reduce our procurement costs. Ei Group's drinks requirement is more heavily weighted toward beer and cider, with a greater purchase volume in these categories compared to Stonegate Group. For this reason, Ei Group benefits from better pricing terms for beer and cider. We believe that by migrating the rest of the group to Ei Group's pricing structure, we can achieve significant cost savings. Moreover, we believe that transitioning to supply contracts that bundle BCF (i.e., beer, cider and flavored alcoholic beverages) or WSM (i.e., wines, spirits and minerals) or food, we will be able to achieve better pricing terms overall in light of the size of the combined group. Based on our current estimates, we expect to achieve aggregate procurement savings of approximately £43 million. We estimate that we will realize approximately £11 million of these savings by December 2020, and the remaining £32 million by December 2021.

Head office and site operation synergies: We are in the process of carrying out a detailed review to implement the integration of Stonegate Group and Ei Group. Based on the outcome of this review, there may be a controlled reduction in the combined group's headcount. This would include rationalizing certain corporate and support functions at Ei Group's head office where there is duplication with our existing functions or where the function was required to support Ei Group's status as a publicly listed company. The chairman of its board of directors, the non-executive directors, the chief executive officer and the chief financial officer resigned effective March 3, 2020. Based on our management's initial assessment, which is subject to a more detailed review that we expect to complete within six months from the Transaction, the aggregate cost savings from these resignations and the elimination of remuneration payable to senior management and certain other head office employees, will be approximately £7 million. Based on our current estimates, we expect to achieve approximately £37 million of cost savings relating to head office and site operation synergies. We estimate that we will realize approximately £22 million of these savings by December 2020, and the remaining £15 million by December 2021.

We also plan to drive cost savings at the site level by implementing various operational best practices and achieving greater efficiency across the combined group. For example, Stonegate Group's repairs and maintenance system, ProNett, will be implemented across the combined group, enabling better cost management in this category and generally a better approach to managing expenses.

Disposals to realize alternative value and enable our core investment strategy

We will adopt a proactive approach to reshaping our portfolio of assets. In addition to the format conversions discussed above, we will assess each site in the portfolio for its value within the combined group against its alternative value. This will involve assessing sites for their value in alternative commercial or residential use and as a pub in the ownership of another group. Realizing such value in our portfolio will enable the group to redeploy disposal proceeds into the estate and help mitigate the impact of the COVID-19 pandemic on our liquidity position and our ability to invest in the short term.

History

We were incorporated in August 2010 in connection with our acquisition of pubs from Mitchells & Butlers and began our trading operations in November 2010 following the acquisition of 333, predominantly freehold, pubs from them. We have since grown in size and scale through a series of strategic acquisitions. In 2011, we acquired Town & City, which owned 226 leasehold pubs, helping us grow our geographical presence in the United Kingdom and to develop our formats to cover a wider demographic catchment. In 2013, we acquired 12 pubs from Living Room, which allowed us to strengthen our presence in some of the major cities across the United Kingdom, including London, Manchester, Liverpool, Glasgow, Edinburgh and Bristol. Again in 2013, through our acquisition of 78 pubs from the Bramwell, we were able to further grow our reach within the United Kingdom, particularly in cities and towns where we did not have an existing presence. In 2015, we acquired 15 pubs from Maclay, which allowed us to expand our presence in the major cities and towns of Scotland, and we agreed to acquire 53 hand-picked pubs from TCG, allowing us to continue to strengthen our presence throughout the United Kingdom. In December 2016, we acquired Intertain, which operated 30 pubs across the United Kingdom predominantly under the Walkabout brand, a dedicated sports format popular with millennials, expanding our reach to town and cities where previously we did not have any sites, such as Carlisle and Lichfield. In 2017, we selectively acquired 13 pubs from JDW and acquired three central London pubs from the Faucet Inn Sellers. In 2018 and 2019, we acquired 33 pubs pursuant to the Be At One Acquisition, 15 pubs pursuant to the First Novus Acquisitions, 32 pubs pursuant to the Fever Bars Acquisition and six pubs pursuant to the Second Novus Acquisitions. In addition, on March 3, 2020 we completed the Transaction and combined Ei Group's operation with ours. We continually evaluate opportunities to acquire individual sites in situations where those sites are a particularly good fit for our existing business.

Business Organization

Following the completion of the Transaction, we have centralized the management of Stonegate Group and Ei Group and established reporting chains to our senior management. Operationally, we continue to view Stonegate Group and Ei Group as before. Accordingly, for purposes of this Offering Memorandum, we have described Stonegate Group's managed business in this section of the Offering Memorandum and Ei Group's publican partnership, managed and commercial properties business under "Ei Group's Business."

Stonegate Group's Managed Pubs

Stonegate Group's managed pubs are categorized as branded and unbranded based on each pub's concept and offering, and within these groups we classify Stonegate Group's managed pubs into eight formats. The branded group is comprised of our Slug and Lettuce, Venues and the Be At One pubs, while the unbranded group is comprised of our Proper Pubs, Town Pub and Kitchen, Common Rooms, Classic Inns pubs and City Taverns. Our eight formats represent the diversity of our offering, our wide geographical reach within the United Kingdom and our broad customer base. By operating Stonegate Group's managed pubs through a multi-format strategy, we believe we have strategically positioned ourselves across a wide range of consumer demographics, trends and occasions.

The table below presents a summary of our formats through which we operate.

Brands and formats	Number of pubs as of April 12, 2020	Description	Marketing and branding
		Branded	
The Slug and Lettuce	84	The Slug and Lettuce brand is an inclusive, female friendly, stylish, high street bar that offers premium drinks and food.	• Primarily attracts customers in the 25–35 year age range; • Positioned to capture the lunch-time, post-work and evening food and drinks market.
Venues	137	Venues are a group of our individually branded bars located across the United Kingdom under various brand names such as Reflex, Flares and Popworld.	• Primarily attracts customers in the 25–40 year age range; • Positioned as a party venue.
Be At One	39	The Be At One bars offer a wide range of premium specialist cocktails. Typically located in basement venues or former nightclub sites.	• Categorized as a new format; • Primarily attracts a young, urban population in the 18–35 year age range.
		Unbranded	
Proper Pubs	282	Proper Pubs are mainstream, local community pubs offering food and drinks at value prices. These pubs cater to a variety of customer occasions, with a focus on a pint with friends, lunchtime socializing, events participation, sport and weekend nights out.	• Primarily attracts customers in the 30–55 year age range; • Positioned as community local pubs located in town centers and suburbs.

Brands and formats	Number of pubs as of April 12, 2020	Description	Marketing and branding
		Unbranded	
Town Pub and Kitchens	85	Town Pub and Kitchens formats are located in town centers and are accessible to a broad mainstream market that transitions throughout the day to meet the local needs for socializing, entertainment and relaxation. The format is more stylish than that of a traditional pub, with contemporary touches and a premium product offer. Formerly, certain pubs from our Great Traditional Pubs format of pubs comprised this category.	• Attracts customers in all age ranges, with evenings positioned to attract customers in the 20–35 year age range; • Positioned to fit any time of day, including late-night entertainment.
Common Rooms	48	Common Rooms are distinctive pubs targeted at students and like-minded adults, and offering a "third space" for any time of the day or week, creating zoned areas to eat and drink, socialize, work and play. Formerly, certain pubs from our Scream format of pubs comprised this category.	• Primarily attracts customers in the 18–35 year age range.
Classic Inns	62	Positioned in the premium mainstream segment, Classic Inns are our individually branded pubs located largely in suburban centers, which offer a premium pub experience, with a varied high-quality food and drink offering.	• Primarily geared toward adults aged 30 and over.
City Taverns	24	Positioned in the premium mainstream segment, City Taverns are our individually branded pubs located in city centers and predominantly in London, which offer a premium pub experience, with a varied food and drink offering.	• Primarily attracts customers in the 25–45 age range.

During the integration of acquired pubs, we focus on achieving cost synergies and format integration. Starting with our original acquisition of pubs from Mitchells & Butlers in August 2010 and from Town & City in June 2011, we have successfully managed the transition of pubs from Ember Inns, Vintage Inns, Toby Carvery, Crown Carvery, Harvester, Scream, Living Room, Maclay and TCG, as well as of unbranded pubs and venues, into our existing formats. Further, we fully integrated into our current formats the pubs we acquired from Intertain, Large Bars, Faucet Inns, Ei Group (pursuant to the asset acquisitions from them in 2017) and Punch Taverns. Furthermore, we have fully integrated into our current brands and formats the pubs we acquired pursuant to the First Novus Acquisitions, Second Novus Acquisitions, the Fever Bar Acquisitions and the Be At One Acquisition.

The Stonegate Group managed pubs are managed on a regional basis with 60 area managers supporting nine divisional directors, as of April 12, 2020, who report to two managing directors. One of our managing directors is responsible for our branded group, which is comprised of the Slug and Lettuce, Venues and Be At One formats, while the other managing director is responsible for our unbranded group, which is comprised of the Proper Pubs, Town Pub and Kitchens, Common Rooms, Classic Inns and City Taverns formats. Our unbranded group is split based on regions in the United Kingdom into the north, midlands and southern divisions. Each pub is managed by a general manager, who is incentivized to maximize profit through a bonus scheme that provides him or her 20% or 30% of their base salary plus 10% share of profits above the budget set by our senior management.

All of Stonegate Group's central operations, such as purchasing, marketing, property, finance, human resources and IT are managed out of our head office in Luton. As of April 12, 2020, Stonegate Group's purchasing team comprises 17 members who manage procurement and supply along with associated price negotiations for all of Stonegate Group's managed pubs. Stonegate Group's marketing team comprises 175 members, as of April 12, 2020, whose principal responsibility is the development of the customer offer for each of Stonegate Group's managed pubs brands and formats, and the pre-booking of advance sales. Stonegate Group's property team comprises 26 members, as of April 12, 2020, whose principal responsibility is the maintenance of Stonegate Group's estate and the implementation of Stonegate Group's agreed capital expenditure plans. Stonegate Group's finance team comprises 114 members, as of April 12, 2020, whose principal responsibility is the maintenance of accurate record-keeping and reporting of Stonegate Group's managed pubs business performance. Stonegate Group's human resources team has 80 members and Stonegate Group's IT team has 38 members as of April 12, 2020. For additional information regarding our IT operations, see "—Information Technology."

Stonegate Group's Offering

Stonegate Group's Drinks Offering

Stonegate Group's drinks sales made up 78% of its consolidated revenue for the 52 weeks ended September 29, 2019. For Stonegate Group's managed business, we pass through drink price rises annually in April, coinciding with alcohol duty increases in the United Kingdom. The government in the United Kingdom imposed a duty escalator which commenced in April 23, 2009, pursuant to which duties on alcohol rise each year by 2% above the rate of inflation (based on RPI). This duty escalation was removed from beer in the March 2013 budget and from spirits, wine and made-wine, cider and perry in the March 2014 budget, while the March 2015 budget subsequently reduced duty rates on beer, spirits and lower and high-strength cider, and froze duty rates on wine below 22% alcohol by volume and high-strength sparkling cider. In the March 2016 budget, duty rates on wine and made-wine at or below 22% alcohol by volume and high strength sparkling cider above 5.5% alcohol by volume rose at the same rate as RPI inflation, but the UK government froze in cash terms the duty rates on beer, spirits and other drinks above 22% alcohol by volume and still cider and lower strength sparkling cider. In the March 2017 budget, the duty rates on alcohol manufactured in, or imported into, the United Kingdom rose at the same rate as forecast RPI inflation, and in the November 2017 budget, duty rates on beer and most other spirits and ciders were frozen. In the October 2018 budget, duty rates on beer and most other spirits and ciders remained frozen but specifically duty rates on wine and made-wine at or below 22% alcohol by volume and high strength sparkling cider above 5.5% alcohol by volume rose at the same rate as RPI inflation. In the March 2020 budget, duties on beer, cider and wine were frozen. For risks related to potential increases in alcohol duties to which we are subject, see "Risk Factors—Risks Related to Our Business—Changes in regulations to which we are subject or the introduction of new regulations to which we may become subject could have a negative effect on our business—The taxes and duties to which we are subject may increase."

Stonegate Group's Food Offering

As of September 29, 2019, approximately 82% of Stonegate Group's managed pubs offered both food and drinks. We have established strict standards and specifications for the food we source for Stonegate Group's managed pubs to help us ensure the quality and consistency of the food products sold. The mix of food and drink sales at Stonegate Group's managed pubs varies over the course of the day. On average, at these pubs, food accounted for 33% of all pre-5:00 p.m. sales across Stonegate Group's managed pubs for the 52 weeks ended September 29, 2019. Stonegate Group's food sales made up 17% of its consolidated revenue for the 52 weeks ended September 29, 2019. Although drinks sales are the main focus of Stonegate Group's managed pub business, food offering helps us maximize profitability.

For Stonegate Group's managed pubs, we change food menus twice a year, once during spring and once during autumn, passing through any price changes at the same time. We attempt to remain current with, and continue to effectively address, customer preferences and consumer trends in the food and drink market. In light of the COVID-19 pandemic, we have made temporary changes to the Stonegate Group's managed pubs food menu to cut it back but intend to resume normal service when circumstances permit. For risks related to our inability to keep up with these preferences and trends, see "Risk Factors—Risks Related to Our Business—Consumer preferences and perceptions in relation to drink and food may continue to change and we may be unable to adapt to such changes."

Other

Stonegate Group's other sales made up 5.0% of its consolidated revenue for the 52 weeks ended September 29, 2019. Stonegate Group's other sales consisted of gaming machine income, accommodation income and admission fees into Stonegate Group's late night venues.

Stonegate Group's Property Estate

Geographical Presence

Stonegate Group's managed pubs have a geographically diversified footprint across the United Kingdom that consisted of 761 sites as of April 12, 2020, with a strong presence in London and the southeast region of the United Kingdom, having approximately 37% of sites in these locations. In addition, as of April 12, 2020, approximately 79% of these sites were located in town centers, with the remaining 21% being located in suburbs.

Number of pubs by region

We review our geographical footprint on an ongoing basis. In 2013, we acquired 12 pubs from Living Room, which allowed us to strengthen our presence in some of the major cities across the United Kingdom, including London, Manchester, Liverpool, Glasgow, Edinburgh and Bristol. Further, in 2013, through our acquisition of 78 pubs from Bramwell, we were able to further grow our reach within the United Kingdom, particularly in cities and towns where we did not yet have an existing presence. In 2015, we acquired 15 pubs from Maclay, which has allowed us to expand our presence in the major cities and towns of Scotland, and in September 2015 we agreed to acquire 53 pubs from TCG, allowing us to continue to strengthen our presence throughout the United Kingdom. In December 2016, we acquired Intertain, which owned and operated 30 pubs across the United Kingdom predominantly under the Walkabout brand, a dedicated sports format popular with millennials, expanding our reach to towns and cities where previously we did not have any sites, such as Carlisle and Lichfield. In addition, we have also selectively acquired 13 pubs from JDW and acquired three central London pubs from the Faucet Inn Sellers, and we continually evaluate opportunities to acquire individual sites in situations where those sites are a particularly good fit for our existing business.

In July 2018, we completed the Be At One Acquisition pursuant to which we acquired 33 bars spread across central London (approximately 34%), outer London (approximately 19%) and regionally in the United Kingdom (approximately 47%), and in December 2018, we completed the acquisition of the last of the 15 pubs acquired under the First Novus Acquisitions and located in attractive areas of London with a high footfall such as the City of London, the West End and Soho. In January 2019, we acquired 32 pubs pursuant to the Fever Bars Acquisition located in certain towns and cities in the United Kingdom, such as Tunbridge Wells, Redditch and Basingstoke, and in a majority of these locations, we have limited or no presence. In addition, in January 2019, we also acquired six pubs pursuant to the Second Novus Acquisitions. The six sites acquired pursuant to the Second Novus Acquisitions are in attractive locations in the business and financial districts of London such as St. Mary Axe, Tooley Street, Canary Wharf and Bishopsgate. In addition, following the Transaction, Ei Group as the largest portfolio manager of pubs and leased and tenanted pub owner in the United Kingdom, has contributed an additional 4,028 pubs.

Accordingly, following the Transaction, we operate from 4,749 sites as of April 12, 2020.

Freehold and Leasehold Properties

As of September 29, 2019, Stonegate Group's property portfolio consisted of 763 sites, and it subsequently disposed of two sites during the 16 weeks ended January 19, 2020. The Stonegate Group Valuation Report, which was prepared based on Stonegate Group's estate as of September 29, 2019, excludes these two sites and values 761 sites. Of the 761 sites valued in the Stonegate Group Valuation Report, approximately 33% are freehold, comprising 251 pubs, approximately 3% are long leasehold (with 50 years or more remaining under the lease term), comprising 26 pubs and approximately 64% are short leasehold (with less than 50 years remaining under the lease term), comprising 484 pubs.

The Stonegate Group Valuation Report assigned these pubs an aggregate value of £798 million. The portfolio of freehold sites was valued at £473 million, the portfolio of long leasehold sites (with 50 years or more remaining under the lease term) was valued at £42 million and our portfolio of short leasehold sites (with less than 50 years remaining under the lease term) was valued at £283 million.

With respect to Stonegate Group's property portfolio as of September 29, 2019, the majority of leases have five-year rent review cycles. Stonegate Group is also focused on continuing to monitor its lease agreements to allow it to renegotiate our rental payments across its estate when possible.

Pub Investment Program

Since Stonegate Group began trading, and through January 19, 2020, it has refurbished approximately 621 pubs that it operated. We continue to invest in Stonegate Group's managed estate, and for the 156-week period ended January 19, 2020, we generated a Stonegate Group Return on Investment of 35.9%. We have a focused real estate investment program and take a disciplined approach to investment appraisal. For Stonegate Group's managed estate, we identify priorities for investment through bi-annual estate reviews and have put in place a multi-stage estate review to ensure a disciplined approach to investment across our pubs. Sites are identified by analyzing current performance, consumer trends and capacity opportunities. Investments are then approved through separate operations, business and board committees. We consider the projected Return on Investment in deciding whether to invest. Following the investment, performance is monitored at board meetings for the following three years. In light of the COVID-19 pandemic and our efforts to manage cash outflows and preserve and build liquidity, our ability to make investments in our estate may be limited for some time. We currently intend to keep discretionary spending at a minimum, and until our cash reserves recover to desirable levels, we plan to make capital expenditure through a careful and considered approach.

Pub Disposal Program

Pursuant to the completion of the Transaction, we intend to analyze each site in the combined estate and assess its optimal format going forward. We expect that pursuant to this analysis we will be able to identify leased and tenanted sites which could generate more value as managed pubs, and sites which could generate more value if disposed of, particularly where those sites may have attractive alternative use opportunities. Further, in light of the impact of COVID-19 pandemic on our liquidity and ability to invest in our estate in the short term, we will also consider disposals of pubs which can allow us to redeploy disposal proceeds into our estate. In addition, as a condition to approval by the CMA of the Transaction, we have undertaken to dispose of 42 sites to third parties, which include 10 sites from the Stonegate Group estate and 32 sites from the Ei Group estate. We intend to complete the disposal of these sites by November 2020.

Supply

For Stonegate Group's managed pubs, we review our food and drink inventory and supply management on an ongoing basis to ensure that Stonegate Group's managed pubs offering is responsive to customer demand and to changing customer and industry trends. We have developed strong relationships with certain of our key suppliers, which have enabled us to benefit from attractive pricing terms. Stonegate Group's managed pubs benefit from shared administrative, supply and logistics functions, thereby reducing costs and yielding cost synergies, including by giving us greater leverage when negotiating our supply agreements. We select Stonegate Group's managed pubs food and drink suppliers based on quality, the price of their products and consumer tastes and preferences.

For Stonegate Group's managed pubs, we purchased the majority of the drink stock from approximately six suppliers during the 52 weeks ended January 19, 2020, with our leading suppliers being Heineken UK, Molson Coors (UK), Matthew Clark Wholesale Limited, Diageo, Coca-Cola European Partners and Budweiser Brewing Company. The largest drinks supplier was Matthew Clark Wholesale Limited (accounting for approximately 57% of Stonegate Group's drink supply cost for the 52 weeks ended January 19, 2020) followed by Heineken (UK) (accounting for approximately 9% of Stonegate Group's drink supply cost for the 52 weeks ended January 19, 2020). Since many of Stonegate Group's suppliers source the products that they supply in the United Kingdom, Stonegate Group has seen minimal impact of recent currency fluctuations since the announcement of Brexit in 2016. Stonegate Group has agreed to framework purchasing agreements with each of the suppliers to its managed pubs with an average term of two years, pursuant to which Stonegate Group's managed pubs make purchase orders when needed. In addition, Stonegate Group is typically not bound by exclusivity arrangements with suppliers and most of its agreements with suppliers include a provision that allows it to renegotiate the pricing terms if its estate increases by 10% or more from the time the contract was entered into. In the past, Stonegate Group has typically been able to use these provisions to negotiate more favorable pricing terms with its suppliers. A substantial majority of the food supplied to Stonegate Group's managed pubs is distributed through one supplier who, in consultation with Stonegate Group, in turn sources food supplies from other suppliers in the market. For risks related to our dependence on certain suppliers, see "Risk Factors—Risks Related to Our Business—We rely on a limited number of suppliers and distributors and, if such suppliers continue to consolidate, or face financial difficulties, prices we pay to our suppliers may rise or our operations may be disrupted."

Employees

As of April 12, 2020, Stonegate Group had 14,169 employees located across the United Kingdom. Pursuant to the COVID-19 pandemic, as of April 12, 2020, we furloughed approximately 96% of Stonegate Group's employees under the Job Retention Scheme. The number of Stonegate Group's employees as of September 29, 2019, September 30, 2018 and September 24, 2017 were 14,916, 13,848 and 13,408, respectively. Stonegate Group's employees are distributed among Stonegate Group's various managed pubs across the United Kingdom, and as of April 12, 2020, Stonegate Group had 586 pub support staff employed at the head office in Luton, or were field-based.

In addition to permanent salaried employees, Stonegate Group also employs temporary or part-time staff, generally on a monthly-basis. All of hourly paid staff receive the National Minimum Wage, the National Living Wage or a slightly higher rate. General managers have flexibility to pay above the rates set centrally by senior management, as will typically be the case in London and other large cities. Stonegate Group's employees receive 100% of tips left by customers in order to demonstrate that they are rewarded for excellent customer service. Stonegate Group does not have zero hours contracts for its employees. In addition, Stonegate Group operates a bonus scheme for the general managers of Stonegate Group's managed pubs for achieving profit targets.

Staff Training and Development

We are focused on the training of our employees, which constitutes one of the main focus points of our management. We have also initiated programs to improve the caliber of Stonegate Group's general managers.

In November 2012, we opened a development center called Albert's Academy. This center is based in Birmingham, which is a central location in the United Kingdom for Stonegate Group's managed pubs pub-based staff. The center provides a multi-functional space for learning and development addressing all aspects of Stonegate Group's business and includes facilities such as a state-of-the-art demonstration kitchen and five individual kitchen training pods, alongside two training rooms and a cellar training facility.

The facility is used as the primary venue for Stonegate Group's training programs. We have also introduced an "app" called Albert's App to train Stonegate Group's staff.

In acknowledgement of our work to date, we were awarded the "HR Manager of the Year" award at the 2019 National Innovation in Training Awards, and we were awarded the "Best Pub Employer" (501 + employees) award at the 2019 Publican Awards.

Recruitment

We strengthened Stonegate Group's human resources team in 2012 with the establishment of an internal recruitment team and the appointment of a success coach to promote the development of Stonegate Group's top performing deputy managers. We view Stonegate Group's pool of managers as being crucial to our future success and place emphasis on the recruitment and retention of highly skilled management. For risks related to our ability to identify and/or retain a talented pool of managers, see "Risk Factors—Risks Related to Our Business—We are dependent on key executives for our future success."

Employment Legislation

Our site support management and hourly paid employees are subject to the Working Time Regulations, which controls the hours they are legally allowed to work. In addition, as a large number of our staff is employed at the National Minimum Wage or the National Living Wage, we are impacted by increases in the National Minimum Wage and the National Living Wage. For risks related to employment regulations to which we are subject, see "Risk Factors—Risks Related to Our Business—Changes in regulations to which we are subject or the introduction of new regulations to which we may become subject could have a negative effect on our business—Employment regulations provide certain rights and protections to our employees, and changes to these regulations may reduce our ability to operate our business efficiently."

Intellectual Property

As of April 12, 2020, Stonegate Group had 167 live trademarks, of which 99 are currently in use relating mostly to company names, logos and brands. There are 68 trademarks that are no longer in use due to lack of relevance but are nonetheless protected by us.

Insurance

Stonegate Group's group-wide insurance coverage includes policies for risks associated with its business. These policies provide insurance cover for material property damage, material accidents and material business interruption, in addition to standard corporate insurance, including crime and directors and officers insurance.

We believe that Stonegate Group's insurance coverage is sufficient for the risks associated with Stonegate Group's operations and that Stonegate Group's policies are in accordance with customary industry practices. However, there can be no guarantee that the coverage we maintain will be sufficient to cover the cost of defense or other damages in the event of a significant claim. The nature of our business exposes us to various liability claims which may exceed the level of our insurance. See "Risk Factors—Risks Related to Our Business—Our insurance may be insufficient and certain types of loss may be uninsurable."

Information Technology

Stonegate Group's information technology team is based at its head office in Luton. Stonegate Group's IT team supports the systems used across Stonegate Group's managed pubs as well as the reporting and analysis tool used by Stonegate Group's regional managers and senior management team.

The key system used at Stonegate Group's managed pubs is the Aztec EPOS system, which is supported by Zonal. This system records sales, stock and cash at our pubs. Fourth Hospitality's Trade Simple program is used to place stock orders, receive deliveries and feed stock information into the Aztec EPOS system, which in turn produces the financial information that is used for our management and statutory reporting. Stonegate Group uses a separate system for staff planning and payroll. This system is used for both salaried and weekly staff at head offices and at Stonegate Group's managed pubs. The Aztec and Fourth Hospitality systems were designed for the pub and hospitality industry, and we have been able to adapt them for Stonegate Group purposes.

Regulation

Our operations are directly subject to, and indirectly affected by, extensive regulation, including in relation to pub licensing, taxation, health and safety, sanitation, alcoholic drinks control and leisure (gaming) machines. Our operations are also subject to regulation with regard to the environment, data protection, access for the disabled and sales to younger customers (such as criminal prosecution for selling alcohol to minors under the age of 18 and allowing minors under the age of 16 to access pub premises without being accompanied by an adult). Some of the regulations to which we are subject in England and Wales are discussed below. We are also subject to regulations in Scotland such as the Licensing (Scotland) Act 1976. The regulatory framework in Scotland is broadly consistent with that of England and Wales detailed below.

Certain COVID-19 Related Regulations and Guidelines

Pursuant to The Health Protection (Coronavirus, Business Closure) (England) Regulations 2020 (as subsequently replaced), which came into force on March 21, 2020, the UK government ordered the closure of all premises providing drinks and food for consumption on the premises, subject to certain specific exceptions. In March 2020, the UK government also enacted the Coronavirus Act 2020, which is a wide-ranging emergency legislation, giving the UK government powers to prevent and mitigate the spread of COVID-19, such as the power to limit or suspend public gatherings, detain individuals suspected to be infected by COVID-19 and to relax regulations to limit transmission of the disease. Subsequently, the UK government issued The Health Protection (Coronavirus, Restrictions) (No.2) (England) Regulations 2020, which came into force on July 4, 2020, and permitted, among others, pubs, bars, social clubs other on-licensed premises to open for business.

COVID-19 Guidelines

Pursuant to the reopening of pubs, the UK government has also prescribed detailed guidelines to maintain social distancing and hygiene measures at pubs to prevent the spread of COVID-19. Some of the measures included in the guidelines include:

- maintaining social distancing (two meters or one meter with risk mitigation where two meters is not viable);
- not allowing indoor gatherings of more than two households, or outdoor gatherings with more than two households or six people in total from any number of households;
- providing clear guidance on social distancing and hygiene to customers on arrival, for example, signage, visual aids and before arrival, such as by phone, on the website or by email;
- encouraging contactless payments and the use of contactless ordering from tables;
- keeping a temporary record of customers for 21 days and assist National Health Service's Test and Trace service with requests for data if needed;
- providing cutlery and disposable condiments only when the food is served;
- using screens or barriers to separate workers from each other, and from customers at points of service;
- keeping indoor and soft play areas closed;
- reducing the need for customers to queue, but where this is unavoidable, discouraging customers from queueing indoors and using outside spaces for queueing where available and safe;
- preventing customers from shouting and chanting due to the potential for aerosol transmission of COVID-19;
- reconfiguring indoor spaces to ensure that customers remain seated rather than standing; and
- generally, considering the cumulative impact of many pubs reopening in a small areas, which entails working with local authorities and neighboring businesses to assess the risk and applying additional mitigations.

Where the enforcing authority (including the local authority) identifies businesses which are not taking actions to comply with the guidelines, the enforcing authority is empowered to take a range of actions. These include actions such as providing specific advice to support businesses achieving the required standard and issuing enforcement notices to help secure improvements. Serious breaches and failure to comply with enforcement notices can constitute a criminal offence, with serious fines and even imprisonment for up to two years. In addition, there is a wider system of enforcement, which includes specific obligations and conditions for licensed premises.

The Business and Planning Bill

In June 2020, The Business and Planning Bill was introduced in the UK parliament. The bill seeks to mitigate the impact of COVID-19 in the hospitality sector by simplifying and reducing the process and costs of obtaining outdoor licensing by pubs, bars, restaurants. In particular, the bill contains provisions allowing for a fast track application process for pavement licences to allow street furniture as well as permitting on–licensed premises to automatically be permitted to provide off-sales. It also relaxes certain conditions for premises which already have off sales authorizations. The bill is subject to Parliamentary debate and is expected to come into force in July 2020.

Licensing Regulation

Licensing authorities are responsible for the licensing system in England and Wales, which is governed by the Licensing Act of 2003 (the "Licensing Act"). There is a two tier system for licensing: premises licenses and personal licenses.

Premises Licenses

Premises licenses are held by Stonegate Group. The grant of a premises license permits the conduct of licensable activities at any premises. Licensable activities relevant to our operations are:

- the sale of alcohol;
- the provision of regulated entertainment; and
- the provision of late-night refreshment, including the provision of hot food and drink after 11:00 p.m.

There is no requirement to renew a premises license every year, but an annual fee is payable, and non-payment of the annual fee can lead to suspension of a premises license. Premises licenses are subject to various mandatory conditions, one of which is that there has to be a designated premises supervisor in respect of each premises license. A designated premises supervisor must by law hold a personal license.

The licensing authorities, when making any decision under the Licensing Act, have to do so in accordance with the four licensing objectives, being:

- the prevention of crime and disorder;
- public safety;
- the prevention of public nuisance; and
- the protection of children from harm.

The concept of fixed hours for the sale of alcohol was removed with the advent of the Licensing Act in November 2005, and all licensed premises now have flexibility (provided applicable licensing fees are paid) in terms of the hours that alcohol can be sold and entertainment and/or late night refreshment provided. This flexibility is however tempered by the fact that any decision to grant a license has to be determined by the licensing authority, having regard to both the licensing objectives, its statement of licensing policy and UK Home Office guidance.

Each licensing authority produces its own statement of licensing policy, which must be revised at least every five years. The UK Home Office has produced its own guidance on the interpretation of the Licensing Act, which licensing authorities must have regard to when making any decisions.

Personal licenses

Each designated premises supervisor must, by law, hold a personal license. Individuals apply to a licensing authority for a personal license where they habitually reside. A personal license is personal to the individual and is portable. The UK government has dispensed with the requirement to renew a personal license every ten years.

Other Food Hygiene and Health and Safety Regulations

Local authority environmental health departments police these areas of regulatory compliance through regular inspections and reactive enforcement visits following accidents and incidents. They seek to ensure compliance with the Food Safety Act of 1990 and Health and Safety at Work Act of 1974. The risk to the business is that it could be required to close and/or that it could be prosecuted, with consequential fines.

Government proposals on sentencing guidelines became effective in February 2016, and these may be used retrospectively by the courts. Should a company be found guilty of an offense under any relevant legislation, including corporate manslaughter, the penalties imposed will be significantly higher than in the past, potentially running into millions of pounds. We manage this risk by the implementation of robust systems of training and record keeping, assisted by the use of professional consultants to ensure compliance.

Gaming Regulation

The provision of machines in premises which have the benefit of a premises license is governed by the Gambling Act of 2005. All premises which have a premises license permitting the sale of alcohol for consumption on the premises, granted under the Licensing Act, and which contain a bar at which alcohol is served, can provide machines available for public use.

Categories of Machines

All such premises are automatically entitled to provide one or two machines of Category C or D (described below). To benefit from the use of these machines, the premises license holder must notify the licensing authority that it wishes to avail itself of the benefit of up to two Category C or D machines, and pay a £50 fee. There is no annual fee payable for this automatic entitlement, once the initial fee has been paid. If the premises wish to have more than two machines of Category C or D, then it must make an application to the licensing authority for a licensed premises gaming machine permit. Such applications may need to be determined by the licensing authority at a hearing. Once granted, an annual fee is payable for such permits.

Category C machines have a maximum cash prize of £100, and a maximum stake of £1. Only persons aged 18 or over are allowed to play on Category C machines. Category D machines have different maximum stakes and prizes, but where the prize is money (which is the usual case), the maximum stake is ten pence, with a maximum prize of £5. Persons under the age of 18 are allowed to play on Category D machines. Commonly, it is Category C machines which are found in licensed premises.

Smoking Regulation

There is a legal requirement under the Health Act 2006 for premises which are classed as "enclosed" to be smoke free. The restrictions do not currently apply to electronic cigarettes which allow the user to inhale nicotine in vapor form, and which do not then produce any smoke, but otherwise apply to anything that can be smoked.

Noise Nuisance Regulation

Local authority environmental health officers are empowered by the Environmental Protection Act of 1990 and associated legislation to police the issue of noise nuisance arising from commercial premises. They have the power to issue fixed penalty notices in certain circumstances and to issue noise abatement notices requiring the cessation of the nuisance. Informal discussion normally precedes such formal action but not always. The onus is on the business to demonstrate due diligence in the prevention of such nuisance.

Environmental Matters

As part of our corporate social responsibility program we have implemented a number of schemes on environmental matters.

We partner with Olleco in the recycling of our used cooking oil. Our used oil is refined into a range of products such as industrial oils and renewable fuels. For the 52 weeks ended September 29, 2019, Stonegate Group collected 959,566 (or 887 metric tons) of used cooking oil. This is the equivalent of saving 2,038 metric tons of carbon.

We also work in partnership with Veolia Environmental Services for waste collection and recycling services. Veolia offers a range of recycling services to manage our waste streams and as of September 29, 2019, 46% of Stonegate Group's waste goes to glass recycling facilities, 11% to dry mixed product recycling and 10% to sustainable uses of food waste. The remaining 33% is classified as general non-hazardous industrial, of which 99% is consigned in energy recovery through heat operations and materials recovery secondary segregation process, while the remaining 1% is currently land-filled. Therefore, as a result, we have been able to significantly reduce the amount of waste that is sent to landfills. Furthermore, since removing single use plastic from all front of house activities in September 2018, Stonegate Group has prevented 55 million items from being sent to landfills. This is higher than our predicted forecast of 52 million and totals 41 tons of single use plastic.

We have continued with the installation of smart meters in the majority of Stonegate Group's outlets. These help us manage our energy use more efficiently, reducing energy consumption.

We believe that we do not currently have any outstanding material environmental compliance costs or environmental liabilities. See "Risk Factors—Risks Related to Our Business—We could be liable for environmental compliance costs at our properties."

Producer Compliance Schemes

We are an "obligated packaging producer" in respect of packaging waste under the Producer Responsibility Obligations (Packaging Waste) Regulations 2007 (the "2007 Regulations"). Producers of packaging must ensure that a proportion of their products is recovered and recycled in accordance with EU requirements which have been transposed into national legislation. We are registered as a packaging waste producer. Stonegate Group's managed pubs have the facilities to recycle 100% of the glass used in the business.

Trade Effluent Discharge Consents

Under the Water Industry Act 1991, a consent must be obtained (or an agreement entered into) with a local water and sewerage company in order to discharge liquid effluent from trade or industrial premises into (a) a public foul sewer; or (b) a private sewer that connects to a public foul sewer. We hold the necessary trade effluent discharge consents for our head office and Stonegate Group's managed pubs.

Asbestos

The Control of Asbestos Regulations 2012 impose a duty to manage Asbestos Containing Materials ("**ACMs**") in non-domestic property such as by taking reasonable steps to locate ACMs; checking their condition; assessing the risk of exposure to such materials; taking any necessary action to address any such identified risks and maintaining a register of ACMs. The primary duty to manage falls upon the person or organization that has the responsibility for the repair and maintenance of the property.

Any non-compliance could lead to enforcement action against the organization in question and any responsible individuals (including (unlimited) criminal fines and the potential for imprisonment of individuals), which are not covered by way of an indemnity and/or insurance. Claims for personal injury caused as a result of exposure to ACMs may also be brought by third parties. We have a planned maintenance visit in place for all sites containing asbestos, where a registered asbestos management company will attend each year and review the stability of the asbestos in site and, if required, we will remove any asbestos that has become unstable. All contractors attending site for maintenance are advised if sites contain asbestos as part of their arrival risk assessment and have to act accordingly. In addition, prior to any major investment we undertake a type 3 asbestos survey that checks the area to be developed for the presence of any asbestos.

Fire

Pursuant to the Regulatory Reform (Fire Safety) Order 2005, as employers and/or persons in control of premises ("responsible persons") we have duties to take such fire precautions as are reasonably practicable to ensure the safety of employees and third parties and to carry out a fire risk assessment. Conviction for a breach of the 2005 Order may attract substantial fines and penalties. Our fire risk assessments are up to date and regularly reviewed to ensure that all significant risks of potential fires are addressed and managed accordingly.

Legionella

We have a duty to manage the risk of exposure to legionella bacteria exposure under the Control of Substances Hazardous to Health (COSHH) Regulations and other health and safety legislation. Risk assessments are carried out on planned maintenance visits every two years, that covers L8 guidance.

Energy Saving Opportunity Scheme (ESOS)

We are subject to the Energy Saving Opportunity Scheme Regulations 2014 and we are fully compliant with reporting requirements under the Energy Saving Opportunity Scheme ("ESOS"). We completed the ESOS survey with Carbon Trust and logged compliance with the Environment Agency. We have embraced this initiative and have taken learning from all of the energy saving opportunities highlighted.

Energy Performance Certificates (EPC)

We are aware of our obligations under the Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015 (the "Regulations") which are designed to secure energy efficiency improvements to properties in England and Wales with an energy performance rating presently of F or G on their Energy Performance Certificate ("EPC"). We are in compliance with the Regulations. We are aware that EPC standards are likely to increase in the future and are proactively managing the future requirements of EPCs. Where low efficiencies are identified we are seeking to prioritize those by investing in remedial works and following these up by further trial installations to capture the consumption savings prior to reviewing the roll out possibilities across the wider estate and businesses.

Litigation

We have been and, from time to time, may continue to become party to claims, proceedings and lawsuits incidental to the ordinary course of our business.

We are not currently involved in any other legal or arbitration proceedings that are expected to have a material adverse effect on our financial position and, to our knowledge, no such legal or arbitration proceedings are currently threatened.

EI GROUP'S BUSINESS

History

Ei Group was founded in September 1991 when it acquired 368 pubs from Bass plc. Ei Group was floated on the London Stock Exchange in November 1995. During the years 2001 to 2004, Ei Group acquired three significant pub portfolios, each of which enhanced the quality of its pub estate and generated significant economies of scale. During this period, Ei Group also completed a number of disposals to comply with the requirements of the Office of Fair Trading. During the years 2005 to 2015, Ei Group focused on the consolidation of its pub estate to enhance its quality by investing in the estate, acquiring high quality pubs and disposing of pubs that did not meet its profile in terms of quality and profitability. During this period and in light of challenging economic conditions, since September 2008, Ei Group accelerated its disposal program and applied the proceeds to repaying debt. In May 2015, Ei Group established its 2020 Strategy to increase its operational flexibility and asset optimization. As part of the implementation of this strategy, Ei Group grew its Ei Group Managed Pubs and Ei Group Commercial Properties businesses to achieve a multi-model operation with a balance of Ei Group Publican Partnerships, Ei Group Managed Pubs and Ei Group Commercial Properties. This provided Ei Group the ability to respond to changing market dynamics and regulatory requirements more quickly and effectively and enabled Ei Group to assess and implement appropriate measures to maximize its asset value. About this time, in keeping with its goal of achieving greater operational flexibility and asset optimization, Ei Group also started reducing the number of its longer-term tied leases and increasing the proportion of its tied businesses operating under shorter-term tenancy agreements of up to five years in length.

Business Segments

Ei Group operates three main business segments: Ei Group Publican Partnerships, Ei Group Managed Pubs and Ei Group Commercial Properties.

Ei Group Publican Partnerships

Ei Group Publican Partnerships, the principal activity of Ei Group's business, is the operation of public houses under the leased and tenanted pub model and as of April 12, 2020, Ei Group had 3,284 pubs under this model, with an average of approximately seven years of occupation per Ei Group Partnerships pub. This involves the granting of leases to, or entering into tenancy agreements with, publicans who operate the pubs as their own businesses and who must pay rent and purchase beer and other drinks from Ei Group (or suppliers nominated by Ei Group) and enter into income sharing arrangements with Ei Group in relation to income generated from leisure machines. Ei Group Publican Partnerships pubs contributed £286 million to the Ei Group Underlying EBITDA for the 52 weeks ended December 28, 2019.

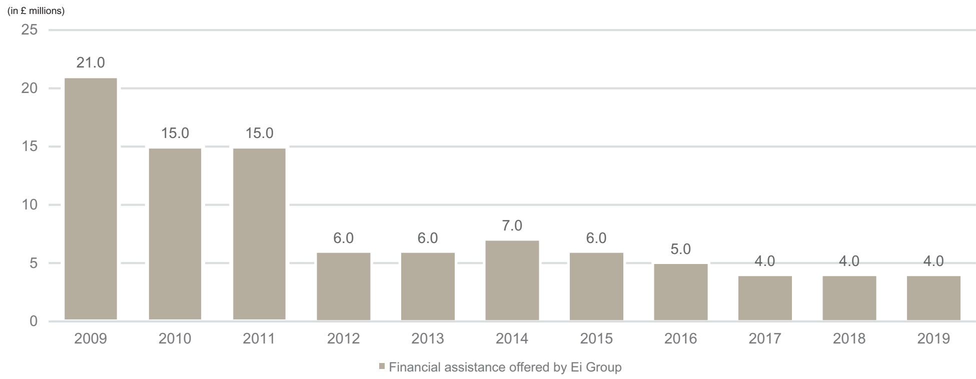
The table below sets forth certain financial and operating data for Ei Group Publican Partnerships for different regions of the United Kingdom:

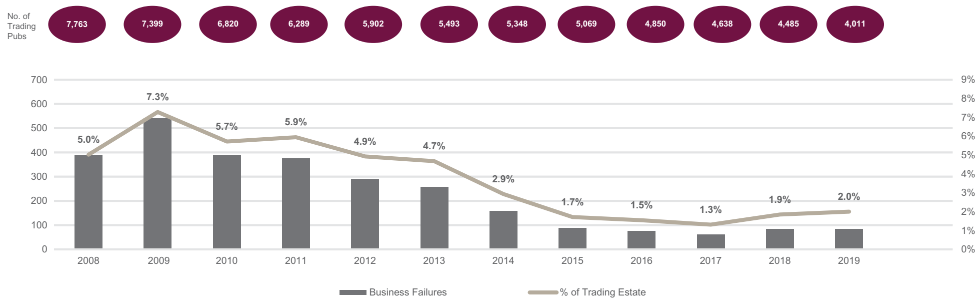
	South of England	Midlands and Wales	North of England and Wales	Total
(£ in millions, except where indicated otherwise)				
Number of Sites (as of April 12, 2020)	1,706	668	910	3,284
% of total	52%	20.3%	27.7%	100%
Ei Group Publican Partnerships Like for Like Net Income (for the 52 weeks ended September 30, 2019)	159	52	74	285
% of total net income (for the 52 weeks ended September 30, 2019)	55.8%	18.2%	26.0%	100%

(1) Represents the pub level net income from Ei Group Publican Partnerships estate for all pubs that have traded as Ei Group Publican Partnership pubs for at least one full year prior to the start of the relevant period excluding income in respect of disposals and other non like for like net income and costs.

Ei Group and its publicans have a shared interest in the success of their pubs. In the equilibrium of trade, in line with the expectations of both parties, the drink and dry rents are together aimed at representing a fair return and payment for the use of the property. If the publican struggles and fewer alcoholic drinks are sold, Ei Group, as landlord, will receive less drink rent and the publican will enjoy a lower effective rent. If everyone works together to drive alcoholic drinks sales, then both parties will benefit from the higher profits.

Ei Group provides support to publicans through a package of flexible lease agreements, capital investments in the best publicans and proactive intervention of regional managers. In addition, Ei Group offers its tied leased and tenanted publicans a broad range of business-building services to help them increase sales and reduce costs, and to operate their pubs efficiently and effectively. Reducing the instances of business failure has been one of Ei Group's key strategies to maintain and grow like for like net income performance as failures have usually had a significant impact on their income. As a result of Ei Group's temporary concessions and support to publicans as well as its approach over the years of disposing of underperforming pubs, Ei Group has experienced an improvement in the overall quality of its estate and a decline in pub failures. The charts below demonstrate a reduction in direct financial assistance offered by Ei Group to its tenants over time on account of the improved health of its overall publican estate and a reduction in unplanned failures over time.





The ability to mitigate the financial risks faced by publicans during periods of economic challenge is a unique attribute of the business model of Ei Group Publican Partnerships. The proactive intervention of Ei Group's regional managers to identify and then avoid potential business failures is particularly important when publicans are likely to be facing cost pressures. In light of the COVID-19 pandemic, our publicans have received government assistance, including under the Hospitality Scheme. In addition, we have also provided a support package to our publicans designed to complement government support measures, including rent cancellations, rent deferrals and trade credits redeemable on stock purchases. See "Summary—Recent Developments—Impact of COVID-19."

Ei Group Managed Pubs, which are discussed in detail below, are now providing additional insight, experience and best practice with which to further enhance the support Ei Group provides to tied publicans in the Ei Group Publican Partnerships business. As of September 30, 2019, Ei Group published a total of 32 Pub Principle Guides, including such business areas as product range, pricing, social media and data protection regulations, and its highly successful "eilive" roadshows attracted a record number of publican attendees. In 2018, Ei Group also launched a new online ordering platform, through which approximately 66% of publicans ordered their weekly drinks requirements as of September 30, 2019.

The table below sets forth certain financial and operating data for Ei Group Publican Partnerships as of and for the years ended September 30, 2017, 2018 and 2019, and the 13 weeks ended December 28, 2019 and the 52 weeks ended December 28, 2019. For more information, see "Ei Group's Summary Historical Financial and Other Information—Segment and Other Financial Information."

	As of and for the following periods				
	Year ended September 30, 2017	Year ended September 30, 2018	Year ended September 30, 2019	For the 13 weeks ended December 28, 2019	For the 52 weeks ended December 28, 2019
(£ in millions, except where indicated otherwise)					
Number of trading pubs	4,051	3,718	3,424	3,351	—
Revenue	547	516	487	117	477
Contribution to Group revenue (%)	84.4%	74.2%	67.3%	63.2%	65.9%
Underlying EBITDA	325	307	291	70	286
Contribution to Ei Group Underlying EBITDA (before central overhead costs) (%)	90.5%	84.8%	82.7%	81.4%	82.9%
Ei Group Publican Partnership Pubs Site EBITDA (*in thousands*)(1)	80	81	83	21	83

(1) Excludes property and central overhead costs.

Ei Group Managed Pubs

Ei Group Managed Pubs include Managed Operations that are owned and operated by Ei Group and Managed Investments that are joint ventures with experienced retail partners and as of April 12, 2020, Ei Group had 528 Ei Group Managed Pubs. Accordingly, this segment allows Ei Group to take advantage of the pubs it believes have a significant upside potential through direct management by experienced pub managers and pub operators. As these businesses are wholly or jointly owned and operated by Ei Group, Ei Group directly benefits from revenue generated by their operation, including revenue from the sale of food, drinks and accommodation and gaming machine income. The Ei Group Managed Pubs generated £45 million of Ei Group Underlying EBITDA for the 52 weeks ended December 28, 2019.

Managed Operations

Managed Operations trade under two unbranded formats – Craft Union Pub Company format and Bermondsey Pub Company format. As of April 12, 2020, Ei Group had 452 pubs operating within Managed Operations – 385 under the Craft Union Pub Company format and 67 under the Bermondsey Pub Company format. Out of these pubs, as of December 28, 2019, 357 had been invested in and had traded for more than six months post-investment, generating an average annual site EBITDA of £111,000 from an average capital investment of £168,000, delivering Ei Group Managed Operations Return on Investment of approximately 22%.

The Craft Union Pub Company format has national coverage as a leading scale operator of community pubs, with one clear retail offer that is drinks-led with quality beers, at affordable prices, served in local, well-invested facilities, with audio visual equipment for sports and entertainment. These pubs are generally smaller operations with no food offerings and have a sports and entertainment drink-led retail offer. They are run by self-employed operators who receive a percentage of the revenue generated in these pubs.

Ei Group believes that the simplicity of the Craft Union Pub Company format helps to mitigate execution risks and improves the efficiency of its capital investment while utilizing economies of scale to drive down operating costs.

The Bermondsey Pub Company format represents Ei Group's fully managed pubs, which operate nationally with a drink-led retail offering with some food and is increasingly tailored to reflect the pre-existing retail offer and consumer occasion.

Managed Investments

Within the Managed Investments segment, Ei Group has developed a partnership model whereby it can work with carefully selected managed pub operators to share in the benefits of trading in certain high quality and specialist retail segments. This business predominantly operates in premium consumer segments with attractive price elasticity and is therefore better able to mitigate the inflationary pressure that is challenging for more value-oriented, food-led businesses.

As of April 12, 2020, Ei Group had 76 pubs operating within Managed Investments under a broad mix of operating styles with 10 expert partners. As of December 28, 2019, Ei Group had 59 pubs operating that had been invested in and traded for more than six months post-investment, generating an average annual site EBITDA of £180,000 from an average capital investment of £413,000, delivering a Ei Group Managed Investments Return on Investment of approximately 21%.

The table below sets forth certain financial and operating data for Ei Group Managed Pubs as of and for the years ended September 30, 2017, 2018 and 2019, and the 13 weeks ended December 28, 2019 and the 52 weeks ended December 28, 2019. For more information, see "Ei Group's Summary Historical Financial and Other Information—Segment and Other Financial Information."

	As of and for the following periods				
(£ in millions, except where indicated otherwise)	**Year ended September 30, 2017**	**Year ended September 30, 2018**	**Year ended September 30, 2019**	**13 weeks ended December 28, 2019**	**52 weeks ended December 28, 2019**
Total number of Managed Pubs	256	355	462	494	—
Number of Managed Operations	*226*	*308*	*392*	*419*	—
Of which Craft Union pubs	*178*	*254*	*329*	*357*	—
Of which Bermondsey pubs	*48*	*54*	*63*	*62*	—
Number of Managed Investments	*30*	*47*	*70*	*75*	—
Revenue	80	152	218	65	233
Contribution to Ei Group revenue (%)	12.3%	21.9%	30.1%	35.1%	32.2%
Underlying EBITDA	13	28	42	13	45
Contribution to Ei Group Underlying EBITDA (before central overhead costs) (%)	3.6%	7.7%	11.9%	15.1%	13.0%
Managed Operations: Average annual site EBITDA (*in thousands*)(1)(2)	96	102	112	—	111
Managed Investments: Average annual site EBITDA (*in thousands*)(2)	230	214	187	—	180

(1) Excludes property and central overhead costs.
(2) Based on sites trading for more than six months post-investment.

Ei Group Commercial Properties

The Ei Group Commercial Properties segment is comprised of free-of-tie pubs and non-pub properties and as of April 12, 2020, Ei Group had 159 commercial properties, the vast majority of which traded as free-of-tie pubs. This business manages a developing portfolio of assets which Ei Group leases out to third parties on commercial property terms. The portfolio incorporates predominantly pub assets, which are let to tenants on a commercial free-of-tie basis and also assets that were previously pubs, now converted to an alternative use, such as a convenience store. Ei Group tenants include household names as well as independent public house and restaurant operators. This business segment contributed £14 million to Ei Group Underlying EBITDA for the 52 weeks ended December 28, 2019.

Ei Group evaluates its assets on a regular basis, identifying opportunities to optimize value by bringing assets into its commercial property portfolio. While this is often done by granting a lease on a free-of-tie basis, Ei Group also adds value by obtaining planning consents and deploying development capital where there is an opportunity to release the embedded value in properties through development. During the years ended September 30, 2017, 2018 and 2019, Ei Group entered into 270 new free-of-tie agreements on common terms for such leases, at an average annualized rental income of £75,000 over an average term of 17 years. In the year ended September 30, 2019, Ei Group sold 354 commercial properties for net proceeds of £341 million. During the 28 weeks ended April 12, 2020, Ei Group sold four commercial properties, and since April 12, 2020 has not sold any commercial properties.

The table below sets forth certain financial and operating data for Ei Group Commercial Properties as of and for the years ended September 30, 2017, 2018 and 2019, and the 13 weeks ended December 28, 2019 and the 52 weeks ended December 28, 2019. For more information, see "Ei Group's Summary Historical Financial and Other Information—Segment and Other Financial Information."

	As of and for the following periods				
	Year ended September 30, 2017	Year ended September 30, 2018	Year ended September 30, 2018	13 weeks ended December 28, 2019	52 weeks ended December 28, 2019
(£ in millions, except where indicated otherwise)					
Number of commercial properties	331	412	125	147	—
Revenue	21	27	19	3	14
Contribution to Group revenue (%)	3.2%	3.9%	2.6%	1.6%	1.9%
Underlying EBITDA	21	27	19	3	14
Contribution to Ei Group Underlying EBITDA (before central overhead costs) (%)	5.8%	7.5%	5.4%	3.4%	4.0%
Ei Group Commercial Properties Site EBITDA (*in thousands*)(1)	67	72	75	18	77

(1) Excludes property and central overhead costs.

Annual Valuation Exercise

Ei Group has implemented a policy of accounting for its estate at fair value based on an annual revaluation exercise employing two independent valuation firms, covering approximately 95% of its property portfolio based on property asset value, with the remainder valued by an internal team of RICS qualified chartered surveyors on a basis consistent with the external valuation. The property asset value for the Unique Group is determined by Colliers. Assets that secure the Ei Secured Corporate Bonds are valued by GVA Grimley Limited.

A breakdown of Ei Group's total property valuation of £3,289 million as of September 30, 2019 is provided below.

	As of September 30, 2019	
	Property Valuation (£ in millions)	Number of Sites
Properties valued by Avison Young	1,544	1,771
Properties valued by Colliers	1,538	1,860
Properties valued by internal Estates Director	120	152
Property subtotal	**3,202**	**3,783**
Non-current assets held for sale	15	
Operating leasehold sites	28	
Other fixed assets	44	
Total property asset value	**3,289**	

Agreements with Ei Group Publican Partnerships Publicans

Ei Group's relationship with its tied publicans in the Ei Group Publican Partnerships segment is generally governed by the type and terms of the lease or tenancy agreement in place between Ei Group and the individual publicans. Ei Group currently enters into one of two main categories of such lease or tenancy agreement with its publicans, under which the publican operates the pub as either a lessee or a tenant and agrees to pay the rent specified in the relevant agreement. The two main categories of Ei Group's existing leases are: (i) standard lease (up to ten years) and (ii) standard tenancy (five years). In addition, Ei Group has previously granted agreements with a wider variety of terms to expiry and Ei Group has inherited some legacy agreements through acquisitions such that the estate includes lease agreements of between five and 65 years and tenancy agreements of between three and five years.

As part of a lease or tenancy agreement, the publican also agrees in most instances that Ei Group is to be the sole supply for certain products. These "tie" arrangements relate primarily to the publican's purchase of beer, cider, flavored alcoholic beverages, wines, spirits and minerals, sales of which generally constitute the majority of the publican's revenue. In other instances the publican agrees to pay Ei Group a tie release fee on an ongoing basis in exchange for reduced purchase obligations whereby categories of beverages may not be subject to a tie arrangement.

Standard leases are generally fully repairing, which means that the lessee is responsible for repairs to the premises during the term of the lease, and are generally fully assignable after two years (subject to Ei Group's consent, which is not to be unreasonably withheld). Standard leases generally contain provisions for annual price index rent adjustments.

Standard tenancies, which are short-term arrangements, involve Ei Group undertaking to carry out the majority of repairs to the relevant pub and are generally not assignable and subject to an annual RPI or CPI rent adjustment. Publicans are usually required to provide a deposit on entry into their tenancy agreement. Some forms of lease and tenancy agreement contain landlord's or publican's options to break the lease or tenancy. In addition, there may be circumstances in which Ei Group would allow a publican to terminate a lease or tenancy agreement early, as it is in Ei Group's interest to have a motivated publican in its pub.

The use of a lease or tenancy agreement and its terms and conditions vary according to the profit expectations, risk assessment and plans which Ei Group and the publican may have for the pub concerned.

The types of agreements with publicans in the Ei Group Publican Partnerships segment as of April 12, 2020 are set out below:

Type of agreement	Number of Publican Partnership pubs	Percentage of total Publican Partnership pubs
Lease agreements	1,505	46%
Tenancy agreements	1,706	52%
No agreements (including expired agreement)	11	NM(1)
Not trading(2)	62	2%
Total	3,284	100%

(1) Not meaningful

(2) Pubs temporarily not trading as of April 12, 2020 due to reasons other than the temporary closure of the pubs as a result of the COVID-19 pandemic.

The profile of the expiry terms of our lease and tenancy agreements with publicans in the Ei Group Publican Partnerships segment as of April 12, 2020 is set out below:

Year of expiry	Number of agreements with Ei Group Publican Partnerships Publicans	Percentage of agreements with Ei Group Publican Partnerships Publicans
Financial year ending September 2020 (from April 12, 2020 onwards)	345	11%
Financial year ending September 2021	624	19%
Financial year ending September 2022	404	12%
Post-financial year ending September 2022	1,838	56%
Others(1)	73	2%
Total	3,284	100%

(1) Includes, tenancy-at-will agreements, expired agreement and pubs temporarily not trading as of April 12, 2020 due to reasons other than the government-mandated closure of our pubs due to the COVID-19 pandemic.

Rental income is paid to Ei Group weekly, fortnightly, monthly or quarterly in advance or in arrear in accordance with the type of agreement for the lease or tenancy of a pub by the publican. The rent is agreed at the outset of each lease or tenancy agreement, and, in the case of new leases and tenancies, is based on its open market rental value.

Some of Ei Group's pubs are subject to rent reviews every five years. Following a rent review, the rent payable under a lease or tenancy agreement may either increase or decrease. There may also be a rent review on the last day of the term which effectively provides an initial rent for any renewal lease.

Property Estate

As of September 30, 2019, Ei Group had a freehold interest in approximately 90% of its pubs based on the number of sites and a leasehold interest in approximately 10% of its pubs based on the number of sites (95% and 5% based on property asset value, respectively).

Supply and Distribution

Ei Group reviews its food and drink inventory and supply management on an ongoing basis to ensure that its offering is responsive to customer demand and to changing industry trends. Ei Group has developed strong relationships with its key suppliers enabling Ei Group to benefit from attractive pricing terms. Ei Group's pubs benefit from shared administrative, supply and logistics functions, thereby reducing costs and yielding cost synergies. In addition, Ei Group's publicans benefit from Ei Group's bargaining leverage when Ei Group negotiates its supply agreements. Ei Group selects its food and drink suppliers based on quality, the price of their products and consumer tastes and preferences.

The five largest international brewers accounted for 82 % of Ei Group's drink supply volume for the year ended September 30, 2019. For risks related to our dependence on certain suppliers, see "Risk Factors—Risks Relating to our Business—We rely on a limited number of suppliers and distributors and, if such suppliers continue to consolidate, or face financial difficulties, prices we pay to our suppliers may rise or our operations may be disrupted."

Since many of Ei Group's suppliers source the products that they supply to Ei Group in the UK, Ei Group has seen minimal impact of currency fluctuations since the announcement of Brexit in 2016. Ei Group has agreed framework purchasing agreements with each of its suppliers with an average term of three years. In addition, Ei Group typically is not bound by exclusivity arrangements to its suppliers and in some contract arrangements Ei Group has the ability to renegotiate its contracts if the size of its estate were to grow and/or if Ei Group were to purchase other businesses. Ei Group relies on Heineken UK for the distribution of its drink supply.

Employees

Although the Ei Group Publican Partnership pubs and Craft Union Pub Company pubs are run by non-employee publicans and independent operators, respectively, Ei Group's employees are responsible for its Bermondsey Pub Company pubs and general corporate and support functions. Additionally, a majority of the employees working at their Managed Investment pubs are also on Ei Group's payroll. As of April 12, 2020, Ei Group had 2,619 employees located across the UK. Pursuant to the COVID-19 pandemic, as of April 12, 2020, we furloughed approximately 92% of Ei Group employees under the Job Retention Scheme. The number of employees as of September 30, 2019, 2018 and September 30, 2017 was 2,180, 1,872 and 1,369, respectively. As of April 12, 2020, Ei Group had 1,799, 302 and 358 staff employed in the Ei Group Managed Pubs, field operations team and support team at its head office, respectively.

Hourly paid workers generally receive the National Minimum Wage or the National Living Wage or as applicable, a slightly higher rate. Ei Group operates with higher rates of pay for its Central London sites in line with its competitors. Although zero hour contracts are offered by certain expert partners in Ei Group's Managed Investments division, Ei Group does not operate zero hours contracts for its teams but instead guarantees a minimum number of hours a week for all employees. In addition, Ei Group operates a bonus scheme for its General Managers along with a number of trade related incentives and competitions throughout the year.

Insurance

Ei Group's group-wide insurance coverage currently includes policies to help mitigate risks associated with its business. These policies provide insurance cover for material property damage, accidents and business interruption, in addition to standard corporate insurances including terrorism and directors and officers insurance.

Ei Group believes that its current insurance coverage is sufficient for the risks associated with its operations and that its policies are in accordance with customary industry practices. However, there can be no guarantee that the coverage Ei Group maintains will be sufficient to cover the cost of defense or other damages in the event of a significant claim. The nature of its business exposes Ei Group to various liability claims which may exceed the level of its insurance.

These insurance policies will be reassessed by Stonegate Group following the Transaction.

Intellectual Property

As of April 12, 2020, Ei Group currently has 24 live trademarks, of which 13 are currently in use relating mostly to company names, logos and brands. There are 11 trademarks that are no longer in use due to lack of relevance but are protected.

Information Technology

Ei Group has an information technology team that supports the systems used across all areas of its business. Its main head office systems are run on a Microsoft platform, which includes Microsoft Dynamics NAV for managing the finance system, Microsoft Dynamics CRM for managing business processes and Microsoft SharePoint for Website, Intranet and document management. In addition, Ei Group uses a number of other software products for order capture, reporting and analysis. The key systems used at Ei Group Managed Pubs are Zonal and Fourth Hospitality. Zonal is an electronic point of sale (EPOS) till system which records sales, stock and cash at its pubs and Fourth Hospitality is a staff planning and payroll system. Both systems were designed for the pub and hospitality industry, and Ei Group has been able to adapt them for its purposes.

Regulation

Ei Group's operations are directly subject to, and indirectly affected by, extensive regulation, including in relation to pub licensing, taxation, health and safety, sanitation, alcoholic drinks control, leisure (gaming) machines, environmental matters, data protection and access for the disabled. The regulations that apply to the Ei Group business are generally similar to those that apply to the Stonegate Group business with the notable exception of certain market rent obligations under the Pubs Code, which are discussed below. See "Stonegate Group's Business—Regulation."

The responsibility to comply with these regulations is typically distributed based on operational control over the relevant sites. Generally, Ei Group is responsible for regulatory compliance in respect of its Managed Operations whereas publicans are responsible for regulatory compliance in respect of the pubs that they operate.

The Pubs Code and Market Rent Only (MRO)

The Pubs Code, introduced by the Small Business, Enterprise and Employment Act 2015, came into effect on July 21, 2016 to regulate the relationship between tied pub tenants and the large pub-owning businesses, which rent the pubs to tenants and sell them tied products.

The Pubs Code applies to all companies owning 500 or more pubs operating under tied leased and tenancy agreements in England and Wales, and is overseen and enforced by an independent Pubs Code adjudicator. It provides tied publicans with a right, under certain circumstances, to replace their existing freely-negotiated tied agreements with the MRO arrangement. This enables tied tenants to opt out of the supply tie at certain points or after certain exceptional events during the term of their lease agreements and to occupy the premises on a standard commercial property lease, paying a market rent only. In the event that a tenant elects to invoke this option, while income derived from the supply of tied drinks products would be partially offset by increases in rent, it is possible that total income from that property would be adversely affected. See "Risk Factors—Risks Relating to our Business—Changes in regulations to which we are subject or the introduction of new regulations to which we may become subject could have a negative effect on our business."

As of September 30, 2019, the extent of conversions to commercial free-of-tie agreements has been lower than was originally anticipated as there have been only limited numbers of publicans opting in for the MRO option. As of the same date, 1,626 out of Ei Group's 4,011 sites, or 40.5%, operated on a tied lease. From the date of the introduction of the Pubs Code in July 2016 to September 30, 2019, there have been 1,662 rent review or agreement renewal events which could potentially have triggered an MRO request. As required under the Pubs Code, Ei Group issued 385 MRO offers in response to requests by tenants of which 213 have been concluded by way of mutually agreed tied deals and 52 have resulted in new mutually agreed MRO terms. In addition, 3 pubs have been sold, 29 leases have been repurchased from the occupational tenant with the balance of 88 pending. Of the outstanding 88, 36 have been referred to the Pubs Code adjudicator for determination.

Of the 1,662 pubs referred to above, 1,048 pubs were still operated by the same tenant on either tied or new MRO agreements as of September 30, 2019. Such pubs delivered like for like net income increase of 0.7% during the year ended September 30, 2019, compared to the prior period. The movement in Ei

Group’s income for this group of pubs has not been as strong as the Ei Group Like for Like Publican Partnerships Net Income Growth of 1.2% achieved during the year ended September 30, 2019 for the Ei Group Publican Partnerships segment reflecting, in part, the stronger negotiating position for publicans which the Pubs Code set out to achieve.

Although Ei Group believes that the lower-than-expected number of MRO requests reflects its tenants’ recognition of the benefits of their existing tied agreements compared to the MRO alternative, Ei Group has reduced the number of longer-term leases and increased the proportion of shorter-term tenancy agreements of up to five years in length to minimize any adverse impact of the Pubs Code on its business. Since the introduction of the MRO concept in November 2014, Ei Group has reduced its number of long-term agreements from 3,035 to 1,552 as of September 30, 2019.

Litigation

Ei Group has been and, from time to time, may continue to become a party to claims and lawsuits incidental to the ordinary course of Ei Group’s business. Ei Group is not currently involved in any legal or arbitration proceedings that are expected to have a material adverse effect on its financial position and, to its knowledge, no such legal or arbitration proceedings are currently being threatened.

MANAGEMENT

Board of the Issuer

The Issuer was incorporated on July 9, 2019, under the laws of England and Wales. The board of directors of the Issuer is composed of the following members:

Name	Age	Title
Ian Payne	67	Director
Simon Longbottom	49	Director
David Ross	47	Director

Summarized below is a brief description of the experience of the individuals who serve as members of the board of directors of the Issuer.

Ian Payne has served as the Chairman of Stonegate Group since 2010 and has over 40 years of experience in the retail industry. Mr. Payne has held board positions with Bass Taverns Limited, Stakis plc and Ladbrokes plc. He was chief executive officer of the Laurel Pub Company from its inception in May 2001 through to December 2004 and later chairman of the Bay Restaurant Group and Town & City prior to the initiation of Stonegate Group's operations in November 2010. Mr. Payne started his career in the trade behind the bar of a local pub more than 40 years ago.

Simon Longbottom was appointed Chief Executive Officer of Stonegate Group in October, 2014, replacing Toby Smith, and was appointed as a director of the Issuer on July 9, 2019. Mr. Longbottom has spent much of his career within the licensed industry. Prior to joining Stonegate Group, Mr. Longbottom was a managing director of Pub Partners, a division of Greene King, as well as a managing director of Gala Coral's gaming division. Mr. Longbottom has also held senior positions with Mill House Inns and Mitchell's & Butlers plc.

David Ross has served as Chief Financial Officer of Stonegate Group since January 2012 and has over 20 years of experience in the retail industry. Mr. Ross qualified as a chartered accountant with PricewaterhouseCoopers in 1999 before joining Boots as a senior internal audit manager. After holding various senior-level positions in Boots, Mr. Ross joined the Spirit Group in 2004 as head of finance for investments and the development company of their "gastro-pubs and bars" business. Mr. Ross joined Laurel Pub Company in 2007 as head of finance and held that position until the break-up of Laurel Pub Company in 2008 when he was appointed head of finance of Bay Restaurant Group and Town & City. Mr. Ross holds a bachelor's degree in business economics and accounting from Southampton University.

Board of the Parent

The Parent is the parent company of Stonegate Group and was incorporated under the laws of the Cayman Islands on August 13, 2010 as an exempted company with limited liability. The board of directors of the Parent is composed of the following members:

Name	Age	Title
Ian Payne	67	Director
Manjit Dale	55	Director
Brian Magnus	54	Director
Simon Longbottom	49	Director
David Ross	47	Director

Summarized below is a brief description of the experience of the individuals who serve as members of the board of directors of the Parent not already described.

Manjit Dale founded TDR Capital in 2002. Prior to that, Mr. Dale served as managing partner at DB Capital Partners Europe and has almost 20 years' experience in private equity. Mr. Dale graduated from Cambridge University with an honors degree in economics.

Brian Magnus joined TDR Capital in September 2012. Prior to joining TDR Capital, he was a managing director at Morgan Stanley where he was European head of Morgan Stanley Private Equity, and formerly head of UK investment banking. He joined Morgan Stanley in 2000 having previously worked in the corporate finance division of Schroders, a company later acquired by Citigroup. Brian graduated from the University of Manchester with a degree in management sciences and qualified as a chartered accountant with PricewaterhouseCoopers.

Management of Stonegate Group

The senior management team of Stonegate Group is composed of the following members:

Name	Age	Title
Ian Payne	67	Chairman
Simon Longbottom	49	Chief Executive Officer
David Ross	47	Chief Finance Officer
Suzanne Baker	56	Commercial Director
Nick Andrews	53	Integration Director
Helen Charlesworth	47	Managing Director
Nicola Pryce	52	Marketing Director
Tim Painter	50	Human Resources Director
Daniel Wilkinson	40	Strategy and Corporate Affairs Director
Nicholas Light	58	Managing Director—Publican Partnerships

Summarized below is a brief description of the experience of the individuals who serve as members of management of Stonegate Group not already described.

Suzanne Baker has served as Stonegate Group's Commercial Director since June 2011 and has over 20 years of experience in the retail industry. Ms. Baker is responsible for overseeing all of Stonegate Group's commercial contracts and relationships including those relating to purchasing and property. Ms. Baker has held board positions in Town & City, Bay Restaurant Group, Laurel Pub Company and JDW. Ms. Baker commenced her career at Grandmet Retail in operations, progressing within marketing and purchasing roles across national brands in the United Kingdom, including at Chef & Brewer Pubs. Ms. Baker holds a Hotel and Catering International Management Association Part B qualification from Staffordshire University.

Nick Andrews joined Stonegate Group in June 2015 and is our Integration Director. Mr. Andrews 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. He originally joined the Bass PLC graduate program before progressing into roles with Bass Leisure Group and Holiday Inns, eventually becoming director and general manager of the O'Neill's pub chain. He holds a first class honors degree from Leeds Metropolitan University and an MBA from Nottingham Trent University.

Helen Charlesworth joined Stonegate Group in June 2015 and is a Managing Director. Ms. Charlesworth previously served as managing director at Your Move, and prior to her service at Your Move she spent six years at PizzaExpress in operations. Ms. Charlesworth holds a Master of Science in total quality management and business excellence.

Nicola Pryce has served as Stonegate Group's Marketing Director since January 2016. Ms. Pryce previously served as global brand marketing director for the London Eye, Madam Tussauds, Sea Life Centers and Legoland Discovery Center at Merlin Entertainments Group, and prior to that she held marketing positions in Selfridges & Co., BAA, Whitbread plc and Hoverspeed. Ms. Pryce is responsible for Stonegate Group's brand development and promotions, digital marketing and pre-booked sales.

Tim Painter has served as Stonegate Group's Human Resources Director since January 2012 and has over 25 years of experience in the retail industry. Mr. Painter is responsible for the recruitment, training and development of Stonegate Group's employees. Mr. Painter started his career in food retail with human resource roles at Asda Group plc and Safeway plc. Mr. Painter then moved to Thorn UK, where he became the human resources director for a division of the business. In 2003, Mr. Painter was appointed as human resources director for Travel Inn, which is a part of Whitbread plc. During his tenure, Travel Inn acquired and integrated the Premier Lodge business to form Premier Travel Inn. In 2006, Mr. Painter returned to the food retail business as human resources director of Musgrave Retail Partners GB, which managed the franchised convenience brands Budgens and Londis. Mr. Painter holds a bachelor's degree in history from Leeds University.

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

Nicholas Light joined us from Ei Group and is our Managing Director–Publican Partnerships. Mr. Light joined Ei Group in 2005 and spent seven years as the managing director of its eastern and southern pub estates prior to taking over in 2017 as the managing director of Ei Group Publican Partnerships segment. Mr. Light has over 30 years of experience managing leased and tenanted pubs estates. He was previously associated with Inntrepreneur, Voyager Pub Group, Unique Group and Colliers and Savills. He holds a degree in history from York University.

Board Practices

Stonegate Group is overseen by the board of directors of the Parent, the parent company of Stonegate Group, which is responsible for setting Stonegate Group's direction through the establishment of strategies, key policies, and the approval of financial objectives and targets. Furthermore, the Parent's board of directors monitors the implementation of strategies and policies through a structured approach of reporting by senior management and recognizes the importance of managing relationships with various stakeholders. Moreover, the Parent's board of directors meets on a monthly basis and reviews strategy, operating and capital budgets, operating results and other matters relating to Stonegate Group's overall objectives. Additional board meetings are held during the year if required.

Committees of Stonegate Group

Managing Director Executive Committee

Stonegate Group's Managing Director executive committee is chaired by Stonegate Group's managing directors and is composed of Stonegate Group's marketing director, human resources director, head of finance and eleven of Stonegate Group's operations directors. The Managing Director executive committee meets every month and its principal role is to discuss the performance of the business and operational initiatives. This committee is also the first point of approval for Stonegate Group's proposed investment capital expenditure programs.

Operations Board

Stonegate Group's operations board is chaired by its chief executive officer and is composed of its chief financial officer, strategy and corporate affairs director, managing directors, commercial director, marketing director and human resources director. The operations board meets every month and its principal role is to discuss the performance of business and marketing plans, and approve any new purchasing agreements. This committee also authorizes proposed investment capital expenditure programs to be presented at strategic planning committee meetings.

Strategic Planning Committee

Stonegate Group's strategic planning committee is chaired by its chairman and is composed of the members of the operations board and representatives of TDR Capital. The strategic planning committee meets every month and its principal role is to determine the strategy of Stonegate Group and review the performance of the business against established goals. This committee also serves as the final point of authorization for any proposed investment capital expenditure programs.

Risk Management Committee

Stonegate Group's risk management committee is chaired by its head of risk and is composed of representatives from its property, food, operations, commercial and finance departments. The risk management committee meets every three months and its principal role is to monitor the risks facing the industry and the business and to evaluate and develop strategies to respond to, and mitigate, such risk. This committee also monitors and reports on latest developments in regulation to which Stonegate Group's business operations are subject.

Conflicts of Interest

We believe that there are currently no conflicts of interest between the duties owed by executive management to us and their private interests. Certain of the directors are representatives of TDR Capital, which is our indirect majority shareholder. In certain situations, the interests of TDR Capital, as indirect majority shareholder, may differ from the interests of our other shareholders. See "Risk Factors—Risks Related to Our Structure—The interests of our controlling shareholder may differ from the interests of the holders of the New Notes."

Compensation

Stonegate Group

The aggregate compensation paid by Stonegate Group to its directors and key management personnel for the 52 weeks ended September 29, 2019 was £18 million, comprising their aggregate salaries and short term benefits, post-employment pension benefits and redundancy payments made during this period.

Stonegate Group has established an incentive program for key employees to help meet its strategic objectives, reward superior performance and encourage achievement of personal objectives. The program incentivizes such key employees through an annual cash bonus program linked to Stonegate Group's key financial performance measures.

Ei Group

The aggregate compensation paid by Ei Group to its directors and key management personnel for the financial year ended September 30, 2019 was £4 million, comprising the directors' remuneration, the executive directors' pension payments and certain share-based payments.

Management Incentive Program

Pursuant to a management incentive program that was implemented in February 2013, certain members of Stonegate Group's senior management were issued Class B ordinary shares of Midco. Under this program, Stonegate Group extended cash loans to certain members of its senior management in order for them to purchase these shares. In November 2018, certain of Stonegate Group's senior managers sold all or part of their Class B ordinary shares to one of Stonegate Group's indirect parent companies for proceeds in an aggregate amount of £9.9 million. Managers who received these proceeds applied a portion of them to repay the cash loans that were initially made to them in connection with their acquisition of Class B ordinary shares. In November 2018, Stonegate Group also paid bonuses in an aggregate amount of £16 million to certain of its senior managers under this program. This bonus payment was financed by equity contributions made by Midco.

In February 2019, Stonegate Group implemented a management incentive program, under which certain existing and new members of Stonegate Group's management purchased Class B ordinary shares of Midco. This management incentive program replaced the old one and has substantially similar terms and conditions. For example, in the event of a transfer of all the shares of Stonegate Group, an initial public offering, an asset sale of all or substantially all of Stonegate Group's assets, or a liquidation, these managers will be entitled to receive proceeds based on their respective holdings of ordinary B shares calculated based on the sale price. In addition, the new management incentive program includes good and bad leaver provisions in the event that a manager leaves Stonegate Group. Depending on the cause and time of leaving, managers may receive a payment between the fair market value of their investment and the initial investment cost.

Stonegate Group is in the process of implementing a new management incentive program in connection with the Transaction. In connection with this management incentive program, the Class B ordinary shares previously held by certain members of Stonegate Group's management in Midco have been exchanged for Class B ordinary shares of Stonegate Holdings, an indirect parent company of Midco and the Parent. Under the new management incentive program, the members of management will transfer the legal title to their shares held in Stonegate Holdings to a nominee. The nominee will hold the shares in Stonegate Holdings on trust for the managers, who will retain beneficial title to the shares. Further, the applicable members of management are to be also given the opportunity to purchase certain enhanced rights to their shares in Stonegate Holdings, such that the value of their shares would increase. The managers who elect to purchase the enhanced rights would pay fair market value for this increase in value of their shares. In addition, beneficial ownership in additional Class B ordinary shares are also expected to be allocated to certain senior employees of Ei Group.

Stonegate Group may change the terms and conditions of its management incentive program and may introduce additional measures to incentivize its management going forward. From time to time, Stonegate Group may also include new managers under its management incentive program.

Share Ownership

Certain members of our board of directors and the senior management of Stonegate Group have a beneficial ownership interest in Stonegate Holdings. See "Principal Shareholders."

PRINCIPAL SHAREHOLDERS

The outstanding shares of the Issuer are indirectly held by the Parent.

Stonegate Holdings is an indirect parent company of the Parent and was incorporated under the laws of the Cayman Islands on October 14, 2010 as an exempted company with limited liability. The registered office of Stonegate Holdings is at the offices of Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands and its telephone number is +1 345 949 1040.

The issued share capital of Stonegate Holdings consists of two classes of ordinary shares, which are designated as Class A ordinary shares and Class B ordinary shares. The Class A ordinary shares and the Class B ordinary shares each have a nominal value of £0.01. The following table sets forth certain beneficial ownership information regarding holders of the ordinary shares in Stonegate Holdings and the percentage owned by each shareholder as of July 15, 2020.

Share class	TDR Capital Beneficial Ownership		Management[1]		Total	
Class A Ordinary Shares	284,774,837	99.5%	—	—	284,774,837	99.5%
Class B Ordinary Shares	—	—	1,504,367	0.5%	1,504,367	0.5%
Total	**284,774,837**	**99.5%**	**1,504,367**	**0.5%**	**286,279,204**	**100.0%**

(1) In connection with the implementation of the new management incentive program (See "Management—Management Incentive Program"), members of senior management are expected to transfer the legal ownership of the Class B ordinary shares held by them to a nominee and retain beneficial ownership of the shares. Further, under the new management incentive program, beneficial ownership in additional Class B ordinary shares are also expected to be allocated to certain senior employees of Ei Group.

Information About Our Principal Shareholder

TDR Capital is a leading private equity firm which managed funds of up to €10 billion of committed capital as of the end of 2019. It was founded in 2002 by Manjit Dale and Stephen Robertson, who were previously partners at DB Capital Partners. TDR Capital has an experienced team of investment professionals and operating partners and has a low-volume investment strategy based on principles developed by the investment team over the past decade. TDR Capital seeks to spend significant resources on each investment and to focus on operational excellence through a tested and integrated operating partner model.

Intense pre-investment analysis and post-investment involvement mean that TDR Capital is selective, typically making only one to three investments a year. TDR Capital takes an active role in overseeing the operations of its investments, working in partnership with management through board representation and professional support.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

We enter into transactions with our shareholders and other entities owned by, or affiliated with, our direct and indirect shareholders in the ordinary course of business on fair terms and at arm's length. These transactions include, among other things, professional advisory, consulting and other corporate services. The following discussion is a brief summary of certain material arrangements, agreements and transactions we have with related parties.

Certain Transactions with TDR Capital and Various Holding Companies

For the 52 weeks ended September 29, 2019, Stonegate Group paid TDR Capital management services and monitoring fees in an aggregate amount of £2 million. For the 28 weeks ended April 12, 2020, Stonegate Group paid TDR Capital management services and monitoring fees in an aggregate amount of £1 million.

During the 52 weeks ended September 29, 2019, the Parent purchased inventory in the amount of £0.4 million on behalf of TDR Capital for TDR Capital's use in the operation of certain public houses. TDR Capital repaid £0.4 million of this amount during the 52 weeks ended September 29, 2019 and the outstanding balance in favor of the Parent as of September 29, 2019 was £0.1 million (after netting certain carry forward balances that existed at the beginning of the period).

During the 52 weeks ended September 29, 2019, Midco, the direct parent company of the Parent, subscribed for shares of the Parent for a value of £15 million, which was paid in full by Midco.

During the 52 weeks ended September 29, 2019, the Parent provided a loan of £6 million to Stonegate Pub Company Holdings Limited, an indirect parent company of the Parent. The loan is repayable in April 2022 and carried an interest of LIBOR plus 2.5%.

As of April 12, 2020, Stonegate Group owed Midco £2 million (2019: £1 million) in relation to the purchase by Stonegate Group's management of certain ordinary shares of Midco, where management funded Stonegate Group, thereby creating a payable to Midco.

Management Incentive Program

Certain managers of Stonegate Group hold shares in Stonegate Holdings under a management incentive program See "Management—Management Incentive Program."

DESCRIPTION OF OTHER INDEBTEDNESS

The following is a summary of certain provisions of the financial arrangements to which the Parent and certain of its subsidiaries are or will become party in connection with the Transaction Financing and the application of the proceeds therefrom as described in "Use of Proceeds." It does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents.

Existing Fixed Rate Notes

On July 13, 2020, the Issuer issued £500,000,000 aggregate principal amount of the Existing Fixed Rate Notes due 2025 under the Indenture, which remain outstanding as of the date of this Offering Memorandum. The terms of the Existing Fixed Rate Notes are substantially similar to those of the New Fixed Rate Notes. See "Description of the Notes."

Senior Bridge Facilities Agreement

The Senior Bridge Facilities Agreement provides for term loan credit facilities in an aggregate amount of £1,450,000,000 (the "Senior Bridge Facilities"), which was drawn in full by way of cash advances in connection with the Transaction. The Senior Bridge Facilities were used for financing or refinancing, directly or indirectly, the cash consideration paid to fund the Transaction, the discharge of existing Stonegate Group debt, the discharge of existing Ei Group debt and transaction costs. On July 13, 2020, the Issuer issued £500,000,000 in aggregate principal amount of the Existing Fixed Rate Notes, the proceeds of which were used to prepay £500,000,000 of borrowings under the Senior Bridge Facilities. We intend to repay the remaining borrowings under the Senior Bridge Facilities Agreement on or about the Issue Date with the proceeds of the Offering.

Revolving Facilities Agreement

Revolving Facilities

The Revolving Facilities Agreement originally provided for a multicurrency credit facility in an aggregate amount of £200,000,000. On July 13, 2020 (the "Effective Date"), certain amendments were made to the Revolving Facilities Agreement including upsizing the total commitments under the Revolving Facilities Agreement by £50,000,000. Therefore, with effect from the Effective Date, the Revolving Facilities Agreement provides for multicurrency credit facilities in an aggregate amount of £250,000,000, comprising Revolving Facility A in an aggregate principal amount of £200,000,000 ("Revolving Facility A") and Revolving Facility B in an aggregate principal amount of £50,000,000 ("Revolving Facility B" and, together with Revolving Facility A, the "Revolving Facilities"). The Revolving Facilities may be drawn by way of cash advances or the issue of letters of credit or ancillary facilities. Revolving Facility A was permitted to be used for financing or refinancing, directly or indirectly, in whole or in part the cash consideration paid to fund the Transaction, the discharge of existing Stonegate Group debt, the discharge of existing Ei Group revolving credit debt, transaction costs. In addition, both Revolving Facility A and Revolving Facility B may be used towards the general corporate purposes and/or the working capital requirements of the Group (as defined under "Description of the Notes") (including for any acquisitions or capital expenditure).

In addition, the Parent may elect to request additional facilities either as a new facility or as additional tranches of the Revolving Facilities (the "Revolving Incremental Facilities"). The Parent and the lenders in respect of the Revolving Incremental Facilities may agree to certain terms in relation to the Revolving Incremental Facilities, including the margin and the termination date (subject to parameters as set out in the Revolving Facilities Agreement). The indebtedness incurred under the Revolving Incremental Facilities must be otherwise permitted under the Revolving Facilities Agreement.

Maturity and Availability Period

Revolving Facility A matures 54 months after the date of first utilization under the Senior Term Facilities Agreement, which was March 4, 2020 (the "Closing Date"). Revolving Facility B matures 24 months after the Effective Date.

The Revolving Facilities are available to be drawn from and including the Closing Date (or, in the case of Revolving Facility B, the Effective Date) to and including one (1) month prior to the relevant maturity date specified in the paragraph above.

Interest and fees

Loans under the Revolving Facilities Agreement will initially bear interest at the aggregate of 3.00% per annum and LIBOR/EURIBOR as applicable.

The margin for each loan under the Revolving Facilities Agreement will be subject to adjustment by reference to the consolidated senior secured leverage ratio as shown in the quarterly financial statements or, as the case may be, the annual financial statements for that relevant period and the related compliance certificate, to equal the rate per annum set out in the following table:

Consolidated senior secured leverage ratio	Revolving Facilities margin (% p.a.)
Greater than 4.75:1.00	3.00
Equal to or less than 4.75:1.00 but greater than 4.25:1.00	2.75
Equal to or less than 4.25:1.00	2.50
Following an initial public offering	2.25

The margin on any loans under the Revolving Incremental Facilities will be agreed between the Parent and the relevant lenders.

If LIBOR or EURIBOR (as applicable) is less than zero, LIBOR or EURIBOR (as applicable) shall be deemed to be zero in respect of any loan under the Revolving Facilities Agreement.

Commitment fees are payable on the aggregate undrawn and uncancelled amount of the Revolving Facilities for the relevant periods set out in the Revolving Facilities Agreement at a rate of 30% of the applicable margin. Generally, the commitment fee is payable quarterly in arrears, on the last day of availability of the Revolving Facilities and if cancelled, on the cancelled amount of the relevant lender's commitment under the Revolving Facilities at the time such cancelation is effective.

Default interest is calculated as an additional 1% per annum on any overdue amount. Bidco is also required to pay (or procure the payment of) customary agency and arrangement fees in connection with the Revolving Facilities.

Repayment

All outstanding amounts under the Revolving Facilities are required to be repaid on the relevant maturity date referred to above.

Loans under the Revolving Facilities must be repaid on the last day of the interest period relating thereto, subject to a netting mechanism against new loans under the Revolving Facilities to be drawn on such date.

The termination date in respect of a Revolving Incremental Facilities will be the date agreed between the Parent and the relevant lenders.

Prepayment

The Revolving Facilities Agreement allows for voluntary prepayments (subject to a minimum amount and certain conditions).

The Revolving Facilities Agreement also permits each lender to require the mandatory prepayment of all amounts due to that lender upon a change of control of the Parent or a sale of the whole or substantially the whole of the business and assets of the Group.

Guarantees

The Revolving Facilities are guaranteed by the Guarantors and the Issuer.

The Revolving Facilities Agreement includes a "Guarantor Coverage Threshold" (being, subject to certain exceptions, the requirement that the Consolidated EBITDA of the Guarantors represents not less than 80% of the Consolidated EBITDA of the Group and the aggregate of the total assets of the Guarantors represents not less than 80% of the total assets of the Group). If the Guarantor Coverage Threshold is not met when tested by reference to delivery of the annual financial statements of the Parent for the relevant year, within 60 days each Material Company that is not already a guarantor (together with such other members of the Group as necessary) shall become guarantors under the Revolving Facilities Agreement in order to meet the Guarantor Coverage Threshold at that time. "Material Company" is generally defined under the Revolving Facilities Agreement to include, among other things, any member of the Group that has earnings before interest, tax, depreciation and amortization representing more than 5% of consolidated EBITDA or has gross assets representing 5% or more of the gross assets of the Group.

Security

The Revolving Facilities Agreement is secured by the same security interests granted as security for the Notes. See "Description of the Notes—Security—The Collateral."

Representations and Warranties

The Revolving Facilities Agreement contains certain customary representations and warranties (subject to certain exceptions and qualifications and with certain representations and warranties being repeated), including (but not limited to) status, binding obligations, non-conflict with other obligations, power and authority, authorizations, no default, governing law and enforcement, sanctions and anti-corruption laws.

Covenants

The Revolving Facilities Agreement contains certain of the incurrence covenants and related definitions (with certain adjustments) that are included in the section entitled "Description of the Notes—Certain Covenants." In addition, the Revolving Facilities Agreement contains a financial covenant (see "—Financial Covenant.")

The Revolving Facilities Agreement also contains a "notes purchase condition" covenant. Subject to certain exceptions set out in the Revolving Facilities Agreement, the Parent may not, and shall procure that no other member of the restricted group will, repay, prepay, purchase, defease, redeem or otherwise acquire or retire the principal amount of the Notes (but excluding any amount outstanding under any "finance document" entered into in respect of the Revolving Facilities Agreement) prior to its scheduled repayment date in any manner which involves the payment of cash consideration by a member of the restricted group to a person which is not a member of the restricted group. The exceptions to such covenant include, *inter alia*, generally, payments that do not exceed 50% of the aggregate original principal amount of the Notes in existence as of the date of their issuance or incurred at any time after their issuance.

The Revolving Facilities Agreement also requires certain members of the restricted group to observe certain affirmative covenants, including covenants relating to maintenance of Guarantor Coverage Threshold on an annual basis (see "—Guarantees" above) and further assurance with respect to security interests granted.

Certain of the covenants under the Revolving Facilities Agreement will be suspended including upon the long-term corporate credit rating of the Parent (or any holding company of the Parent) being equal to or better than Baa3 or BBB-, according to Moody's Investor Services, Inc. and Standard & Poor's Investors Ratings Services, respectively.

The Revolving Facilities Agreement also contains an "information covenant" under which, among other things, the Parent is required to deliver to the Revolving Facilities Agent annual financial statements, quarterly financial statements and compliance certificates. In addition, as part of the information covenant, the Revolving Facilities Agreement requires the Parent to supply an annual budget.

Financial Covenant

The Revolving Facilities Agreement requires that the consolidated leverage ratio in respect of each period of twelve months ending on any quarter date (the "Consolidated Leverage Ratio") shall not be greater than 9.00:1.00 provided that this financial covenant is only to be tested if on the last day of such period, the amount drawn under the Revolving Facilities Agreement is greater than 40% of the total revolving facility commitments. See also ("—Amendments in connection with the COVID-19 pandemic.")

The Parent is permitted (subject to certain conditions) to prevent or cure breaches of the Consolidated Leverage Ratio covenant by applying a "cure" amount (generally, amounts received by the Parent in cash pursuant to any new equity or permitted subordinated debt) as if consolidated EBITDA had been increased by such amount or consolidated leverage had been reduced by such amount. There is no requirement to apply any cure amount in prepayment of the Revolving Facilities. No more than four different cure amounts may be taken into account prior to the maturity date of the Revolving Facilities Agreement and cure amounts in consecutive financial quarters are not permitted.

Events of Default

The Revolving Facilities Agreement contains a limited number of events of default (misrepresentation, unlawfulness, failure to comply with the financial covenant (subject to cure)), subject in certain cases to agreed grace periods and other qualifications. Additionally, the Revolving Facilities Agreement mirrors the events of default applicable to the Notes.

Governing law

The Revolving Facilities Agreement is governed by English law.

Amendments in connection with the COVID-19 pandemic

In connection with the impact of the COVID-19 pandemic on the business and operations of Stonegate Group, certain amendments were made to the Revolving Facilities Agreement on May 20, 2020. Among other things, the amendments were made to allow the Parent to elect, for the purposes of the financial covenant (see "—Financial Covenant"), for each test period in which such financial quarter appears, to use certain deemed consolidated EBITDA numbers specified in the Revolving Facilities Agreement for the third and/or the fourth financial quarter in the financial year 2020. In addition, a minimum liquidity test was introduced for the period until the first month in a test period that does not include the financial quarters for which the election described in the foregoing sentence is made (the "Amendment Period"). Other amendments included certain additional restrictions on incurring indebtedness and making restricted payments during the Amendment Period and allowing additional time for the Parent to deliver the annual report for the financial year 2020, and the quarterly reports for the second, third and fourth trading quarters of the financial year 2020.

Senior Term Facilities Agreement

Senior Term Facilities

The Senior Term Facilities Agreement provides for a term loan credit facility in the amount of £450,000,000 (the "Senior Term Facilities"), which was drawn in full by way of cash advances in connection with the Transaction. The Senior Term Facilities were used for financing or refinancing, directly or indirectly, the cash consideration paid to fund the Transaction, the discharge of existing Stonegate Group debt, the discharge of existing Ei Group debt and transaction costs. The outstanding borrowings under the Senior Term Facilities Agreement will be repaid in part with the proceeds from the Offering.

In addition, the Parent may elect to request additional facilities either as a new facility or as additional tranches of the Senior Term Facilities (the "Senior Term Incremental Facilities"). The Parent and the lenders in respect of the Senior Term Incremental Facilities may agree to certain terms in relation to the Senior Term Incremental Facilities, including the margin and the termination date (subject to parameters as set out in the Senior Term Facilities Agreement). The indebtedness incurred under the Senior Term Incremental Facilities must be otherwise permitted under the Senior Term Facilities Agreement.

Maturity

The Senior Term Facilities mature 84 months after the date of first utilization under the Senior Term Facilities Agreement, which was March 4, 2020.

Interest and fees

Loans under the Senior Term Facilities Agreement initially bear interest at the aggregate of 5.25% per annum or, from the Redenomination Date, 4.25% per annum and LIBOR/EURIBOR as applicable. "Redenomination Date" means the date of allocation of the Senior Term Facilities in connection with primary syndication when the Senior Term Facilities will be redenominated into euro.

The margin for each loan under the Senior Term Facilities Agreement will be subject to adjustment by reference to the consolidated senior secured leverage ratio as shown in the quarterly financial statements or, as the case may be, the annual financial statements for that relevant period and the related compliance certificate, to equal the rate per annum set out in the following table:

Consolidated senior secured leverage ratio	Margin before Redenomination Date (% p.a.)	Margin after Redenomination Date (% p.a.)
Greater than 4.75:1.00	5.25	4.25
Equal to or less than 4.75:1.00 but greater than 4.25:1.00	5.00	4.00
Equal to or less than 4.25:1.00	4.75	3.75
Following an initial public offering	4.50	3.50

The margin on any loans under a Senior Term Incremental Facility will be agreed between the Parent and the relevant lenders.

If LIBOR or EURIBOR (as applicable) is less than zero, LIBOR or EURIBOR (as applicable) shall be deemed to be zero in respect of any loan under the Senior Term Facilities Agreement.

Default interest is calculated as an additional 1% per annum on any overdue amount. Bidco is also required to pay (or procure the payment of) customary agency and arrangement fees in connection with the Senior Term Facilities.

Repayment

All outstanding amounts under the Senior Term Facilities are required to be repaid on the maturity date referred to above.

The termination date in respect of a Senior Term Incremental Facilities will be the date agreed between the Parent and the relevant lenders.

Prepayment

The Senior Term Facilities Agreement allows for voluntary prepayments (subject to a minimum amount and certain conditions).

The Senior Term Facilities Agreement also permits each lender to require the mandatory prepayment of all amounts due to that lender upon a change of control of the Parent or a sale of the whole or substantially the whole of the business and assets of the Group. The Senior Term Facilities Agreement also requires the Parent and/or Bidco to prepay the Senior Term Facilities with the net proceeds received from an initial public offering (subject to certain consolidated senior secured leverage ratio thresholds) and certain disposals (subject to certain exceptions and reinvestment rights), and with the amount of any excess cash in relation to a fiscal year of the Parent as determined in accordance with the terms of the Senior Term Facilities Agreement (subject to certain de-minimis and consolidated senior secured leverage ratio thresholds).

Guarantees

The Senior Term Facilities Agreement is guaranteed by the same entities that guarantee the Revolving Facilities. See "—Revolving Facilities Agreement—Guarantees" above.

The Senior Term Facilities Agreement includes a "Guarantor Coverage Threshold" (being, subject to certain exceptions, the requirement that the Consolidated EBITDA of the Guarantors represents not less than 80% of the Consolidated EBITDA of the Group and the aggregate of the total assets of the Guarantors represents not less than 80% of the total assets of the Group). If the Guarantor Coverage Threshold is not met when tested by reference to delivery of the annual financial statements of the Parent for the relevant year, within 60 days each Material Company that is not already a guarantor (together with such other members of the Group as necessary) shall become guarantors under the Senior Term Facilities Agreement in order to meet the Guarantor Coverage Threshold at that time. "Material Company" is generally defined under the Senior Term Facilities Agreement to include, among other things, any member of the Group that has earnings before interest, tax, depreciation and amortization representing more than 5% of consolidated EBITDA of the Group or has gross assets representing 5% or more of the gross assets of the Group.

Security

The Senior Term Facilities Agreement is secured by the same security interests granted as security for the Notes. See "Description of the Notes—Security—The Collateral."

Representations and Warranties

The Senior Term Facilities Agreement contains certain customary representations and warranties (subject to certain exceptions and qualifications and with certain representations and warranties being repeated), including (but not limited to) status, binding obligations, non-conflict with other obligations, power and authority, validity and admissibility in evidence, no default, governing law and enforcement, sanctions and anti-corruption laws.

Covenants

The Senior Term Facilities Agreement contains certain of the incurrence covenants and related definitions (with certain adjustments) that are included in the section entitled "Description of the Notes—Certain Covenants."

The Senior Term Facilities Agreement also requires certain members of the restricted group to observe certain affirmative covenants, including covenants relating to maintenance of Guarantor Coverage Threshold on an annual basis (see "—Guarantees" above) and further assurance with respect to security interests granted.

Certain of the covenants under the Senior Term Facilities Agreement will be suspended including upon the long-term corporate credit rating of the Parent (or any holding company of the Parent) being equal to or better than Baa3 or BBB-, according to Moody's Investor Services, Inc. and Standard & Poor's Investors Ratings Services, respectively.

The Senior Term Facilities Agreement also contains an "information covenant" under which, among other things, the Parent is required to deliver to the Senior Term Facilities Agent annual financial statements, quarterly financial statements and compliance certificates.

Events of Default

The Senior Term Facilities Agreement contains a limited number of events of default (misrepresentation, unlawfulness, failure to comply with the Intercreditor Agreement), subject in certain cases to agreed grace periods and other qualifications. Additionally, the Senior Term Facilities Agreement mirrors the events of default applicable to the Notes.

Governing law

The Senior Term Facilities Agreement is governed by English law.

Amendments in connection with the COVID-19 pandemic

In connection with the impact of the COVID-19 pandemic on the business and operations of Stonegate Group, certain amendments were made to the Senior Term Facilities Agreement on May 20, 2020. Among other things, the amendments included allowing additional time for the Parent to deliver the annual report for the financial year 2020, and the quarterly reports for the second, third and fourth trading quarters of the financial year 2020 and amending the asset sale covenant by including a requirement to make an offer to prepay the outstanding loans under the Senior Term Facilities Agreement upon the occurrence of certain conditions and, at the Parent's election, to prepay the outstanding loans under other pari passu debt, if the relevant asset sale proceeds are not used for other permitted purposes within the prescribed time period.

Second Lien Facility Agreement

Second Lien Facility

The Second Lien Facility Agreement provides for a term loan credit facility in the amount of £400,000,000 (the "Second Lien Facility"), which was drawn in full by way of cash advances in connection with the Transaction. The Second Lien Facility was used for financing or refinancing, directly or indirectly, the cash consideration paid to fund the Transaction, the discharge of existing Stonegate Group debt, the discharge of existing Ei Group debt and transaction costs.

In addition, the Parent may elect to request additional facilities either as a new facility or as additional tranches of the Second Lien Facility (the "Second Lien Incremental Facilities"). The Parent and the lenders in respect of the Second Lien Incremental Facilities may agree to certain terms in relation to the Second Lien Incremental Facilities, including the margin and the termination date (subject to parameters as set out in the Second Lien Facility Agreement). The indebtedness incurred under the Second Lien Incremental Facilities must be otherwise permitted under the Second Lien Facility Agreement.

Maturity

The Second Lien Facility matures 96 months after the date of first utilization under the Second Lien Facility Agreement, which was March 4, 2020.

Interest and fees

Loans under the Second Lien Facility Agreement bear interest at the aggregate of 8.50% per annum and LIBOR.

The margin on any loans under a Second Lien Incremental Facilities will be agreed between the Parent and the relevant lenders.

If LIBOR is less than zero, LIBOR shall be deemed to be zero in respect of any loan under the Second Lien Facility Agreement.

Default interest is calculated as an additional 1% per annum on any overdue amount. Commitment fees are payable on the aggregate undrawn and uncancelled amount of the Second Lien Facility for the relevant periods set out in the Second Lien Facility Agreement until the earlier of the last day of the availability of the Second Lien Facility and the date falling 365 days after the date of the Second Lien Facility Agreement, at the rates specified in the Second Lien Facility Agreement. Generally, the commitment fee is payable on the date of first utilization of the Second Lien Facility and, thereafter, quarterly in arrears, on the last day of availability of the Second Lien Facility and if cancelled, on the cancelled amount of the relevant lender's commitment under the Second Lien Facility at the time such cancelation is effective.

Bidco is also required to pay (or procure the payment of) customary agency and arrangement fees in connection with the Second Lien Facility.

Repayment

All outstanding amounts under the Second Lien Facility are required to be repaid on the maturity date referred to above.

The termination date in respect of a Second Lien Incremental Facilities will be the date agreed between the Parent and the relevant lenders.

Prepayment

The Second Lien Facility Agreement allows for voluntary prepayments (subject to a minimum amount and certain conditions).

The Second Lien Facility Agreement also permits each lender to require the mandatory prepayment of all amounts due to that lender upon a change of control of the Parent. The Second Lien Facility Agreement also requires the Parent and/or Bidco to prepay the Second Lien Facility with the net proceeds received from an initial public offering (subject to certain consolidated senior secured leverage ratio thresholds) and certain disposals (subject to certain exceptions and reinvestment rights), and with the amount of any excess cash in relation to a fiscal year of the Parent as determined in accordance with the terms of the Second Lien Facility Agreement (subject to certain de-minimis and consolidated senior secured leverage ratio thresholds).

Subject to certain exceptions, if the Second Lien Facility is voluntarily prepaid (or mandatorily prepaid upon a change of control or initial public offering) before the date falling 36 months after the first utilization of the Second Lien Facility, Bidco is required to pay (or procure that another member of the restricted Group will pay) a prepayment fee as set out and calculated under the Second Lien Facility Agreement.

Guarantees

The Second Lien Facility Agreement is guaranteed by the same entities that guarantee the Revolving Facilities. See "—Revolving Facilities Agreement—Guarantees" above.

The Second Lien Facility Agreement includes a "Guarantor Coverage Threshold" (being, subject to certain exceptions, the requirement that the Consolidated EBITDA of the Guarantors represents not less than 80% of the Consolidated EBITDA of the Group and the aggregate of the total assets of the Guarantors represents not less than 80% of the total assets of the Group). In addition, if the Guarantor Coverage Threshold is not met when tested by reference to delivery of the annual financial statements of the Parent for the relevant year, within 60 days each Material Company that is not already a guarantor (together with such other members of the Group as necessary) shall become guarantors under the Second Lien Facility Agreement in order to meet the Guarantor Coverage Threshold at that time. "Material Company" is generally defined under the Second Lien Facility Agreement to include, among other things, any member of the Group that has earnings before interest, tax, depreciation and amortization representing more than 5% of consolidated EBITDA or has gross assets representing 5% or more of the gross assets of the Group.

Security

The Second Lien Facility Agreement is secured by the same security interests granted as security for the Notes. See "Description of the Notes—Security—The Collateral."

Representations and Warranties

The Second Lien Facility Agreement contains certain customary representations and warranties (subject to certain exceptions and qualifications and with certain representations and warranties being repeated), including (but not limited to) status, binding obligations, non-conflict with other obligations, power and authority, validity and admissibility in evidence, no default, governing law and enforcement, ranking, shares, center of main interests and establishments, sanctions and anti-corruption laws.

Covenants

The Second Lien Facility Agreement contains certain of the incurrence covenants and related definitions (with certain adjustments) that are included in the section entitled "Description of the Notes—Certain Covenants."

The Second Lien Facility Agreement also requires certain members of the restricted group to observe certain affirmative covenants, including covenants relating to maintenance of Guarantor Coverage Threshold on an annual basis (see "—Guarantees" above), further assurance with respect to security interests granted and ratings.

Certain of the covenants under the Second Lien Facility Agreement will be suspended including upon the long-term corporate credit rating of the Parent (or any holding company of the Parent) being equal to or better than Baa3 or BBB-, according to Moody's Investor Services, Inc. and Standard & Poor's Investors Ratings Services, respectively.

The Second Lien Facility Agreement also contains an "information covenant" under which, among other things, the Parent is required to deliver to the Second Lien Facility Agent annual financial statements, quarterly financial statements and compliance certificates.

Events of Default

The Second Lien Facility Agreement contains a limited number of events of default (misrepresentation, unlawfulness, failure to comply with the Intercreditor Agreement), subject in certain cases to agreed grace periods and other qualifications. Additionally, the Second Lien Facility Agreement mirrors the events of default applicable to the Notes.

Governing law

The Second Lien Facility Agreement is governed by English law.

Amendments in connection with the COVID-19 pandemic

In connection with the impact of the COVID-19 pandemic on the business and operations of Stonegate Group, certain amendments were made to the Second Lien Facility Agreement on June 5, 2020. Among other things, the amendments included certain additional reporting obligations in relation to the trading quarters in the financial year 2020 and allowing additional time for the Parent to deliver the annual report for the financial year 2020, and the quarterly reports for the second, third and fourth trading quarters of the financial year 2020.

PIK Facility Agreement

PIK Facility

The PIK Facility Agreement provides for a PIK term loan facility in the amount of £325,000,000 (the "PIK Facility") which was drawn in full by way of cash advances in connection with the Transaction. The PIK Facility was used for financing or refinancing, directly or indirectly, the cash consideration paid to fund the Transaction, the discharge of existing Stonegate Group debt, the discharge of existing Ei Group debt and transaction costs. Loans under the PIK Facility are guaranteed by Stonegate Pub Company PIKCo Holdings Limited, a holding company of PIKCo ("PIK Parent"). The PIK Parent has also granted an English law debenture in order to secure its obligations (including guarantee obligations) in relation to the PIK Facility. The PIK Facility matures 102 months after the date of first utilization under the PIK Facility Agreement, which was March 4, 2020. All outstanding amounts under the PIK Facility are required to be repaid on the maturity date referred to above. The PIK Facility Agreement allows for voluntary prepayments (subject to a minimum amount and certain conditions).

As consideration for the entering into the PIK Facility by the lenders, pursuant to the terms of the PIK Facility Agreement, PIKCo notionally allocated to the lenders certain warrants, in the form of notional ordinary shares of Stonegate Pub Company Holdings Limited ("EquityCo"). The notional securities do not constitute actual securities or form part of the share capital of PIKCo or EquityCo.

The PIK Facility Agreement requires the PIK Parent and its restricted subsidiaries to observe certain incurrence and negative covenants, including in relation to limitation on indebtedness, limitation on restricted payments, limitation on liens, limitation on sales of assets and subsidiary stock, limitation on affiliate transactions and limitations on impairment of security interests.

The PIK Facility Agreement is governed by English law.

In connection with the impact of the COVID-19 pandemic, amendments were made to the PIK Facility Agreement on May 21, 2020 in order to allow additional time for the PIK Parent to deliver the relevant annual report for the financial year 2020 and the quarterly reports for the second and third trading quarters of the financial year 2020.

Intercreditor agreement

General

To establish the relative rights of certain of our creditors under our financing arrangements, SPCL and certain other members of the Group which have acceded or otherwise become a party to the Intercreditor Agreement as a debtor (together the "Debtors") are parties to the Intercreditor Agreement dated July 17, 2019 among, among others, Barclays Bank PLC as Revolving Agent, Senior Term Agent, Senior Bridge Agent and Second Lien Agent, Barclays Bank PLC as Security Agent and Bidco as the company as amended and/or restated from time to time including by an amendment and restatement agreement dated December 19, 2019 and an amendment letter dated March 3, 2020. Deutsche Trustee Company Limited (the "Senior Notes Trustee") acceded to the Intercreditor Agreement on July 13, 2020 in connection with the issuance of the Existing Fixed Rate Notes. The Intercreditor Agreement is governed by English law and sets out, among other things, the relative ranking of certain indebtedness of the Debtors, the relative ranking of certain security granted by the Debtors, when payments can be made in respect of certain debt of the Debtors, when enforcement action can be taken in respect of that indebtedness, the terms pursuant to which certain of that indebtedness will be subordinated upon the occurrence of certain insolvency events and turnover provisions.

Capitalized terms set forth and used in this summary of the Intercreditor Agreement may have different meanings from that given to such terms and used elsewhere in this Offering Memorandum.

Definitions

The following capitalized terms used in this summary of the Intercreditor Agreement have the meaning given to them below:

"Agent" means each of any Revolving Agent, Senior Agent, Second Lien Agent, Senior Parent Creditor Representative and the Security Agent, as the context requires.

"Creditors" means the Super Senior Secured Creditors, the Senior Secured Creditors, the Second Lien Secured Creditors, the Senior Parent Creditors, the Hedge Counterparties, the Intra-Group Lenders and the Investors.

"Debtor" means any person that is a party to the Intercreditor Agreement as a Debtor.

"Group" means (i) until the date on which SPCL accedes to the Senior Term Facilities Agreement as an additional guarantor, Stonegate Pub Company Bidco Holdings Limited and its subsidiaries and (ii) on and from the date on which SPCL accedes to the Senior Term Facilities Agreement as an additional guarantor, SPCL and its subsidiaries.

"Hedge Counterparty" means any person that executes or accedes to the Intercreditor Agreement as a Hedge Counterparty.

"Hedging Liabilities" means the liabilities owed by any Debtor to Hedge Counterparties in respect of certain hedging agreements.

"Insolvency Event" means, generally, certain events of insolvency in relation to any company that is a member of the Group.

"Intra-Group Lender" means each Debtor which has made a loan available to, granted credit to or made any other financial arrangement having similar effect with another Debtor and which is a party to the Intercreditor Agreement as an Intra-Group Lender.

"Investor" means any person that is a party to the Intercreditor Agreement as an Investor.

"Majority Permitted Parent Financing Creditors" means, in relation to any Permitted Parent Financing Debt, the requisite number or percentage of Permitted Parent Financing Creditors under the Permitted Parent Financing Agreement on whose instructions the Senior Parent Creditor Representative is required to act in relation to the relevant matter.

"Majority Permitted Second Lien Financing Creditors" means, in relation to any Permitted Second Lien Financing Debt, the requisite number or percentage of Permitted Second Lien Financing Creditors under the Permitted Second Lien Financing Agreement on whose instructions the Permitted Second Lien Creditor Representative is required to act in relation to the relevant matter.

"Majority Permitted Senior Financing Creditors" means, in relation to any Permitted Senior Financing Debt, the requisite number or percentage of Permitted Senior Financing Creditors under the Permitted Senior Financing Agreement on whose instructions the Permitted Senior Creditor Representative is required to act in relation to the relevant matter.

"Majority Revolving Lenders" means, at any time, subject to certain provisions of the Revolving Facilities Agreement, a Revolving Lender or Revolving Lenders whose commitments under the Revolving Facilities Agreement aggregate 50.1 per cent. or more of the total commitments under the Revolving Facilities Agreement (or if the total commitments under the Revolving Facilities Agreement have been reduced to zero, aggregated 50.1 per cent. or more of the total commitments under the Revolving Facilities Agreement immediately prior to that reduction).

"Majority Second Lien Facility Lenders" means, at any time, subject to certain provisions of the Second Lien Facility Agreement, a Second Lien Facility Lender or Second Lien Facility Lenders whose commitments under the Second Lien Facility Agreement aggregate more than 50 per cent. of the total commitments under the Second Lien Facility Agreement (or if the total commitments under the Second Lien Facility Agreement have been reduced to zero, aggregated more than 50 per cent. of the total commitments under the Second Lien Facility Agreement immediately prior to that reduction).

"Majority Senior Bridge Lenders" means, at any time, subject to certain provisions of the Senior Bridge Facilities Agreement, a Senior Bridge Lender or Senior Bridge Lenders whose commitments under the Senior Bridge Facilities Agreement aggregate more than 50 per cent. of the total commitments under the Senior Bridge Facilities Agreement (or if the total commitments under the Senior Bridge Facilities Agreement have been reduced to zero, aggregated more than 50 per cent. of the total commitments under the Senior Bridge Facilities Agreement immediately prior to that reduction).

"Majority Senior Term Lenders" means, at any time, subject to certain provisions of the Senior Term Facilities Agreement, a Senior Term Lender or Senior Term Lenders whose commitments under the Senior Term Facilities Agreement aggregate more than 50 per cent. of the total commitments under the Senior Term Facilities Agreement (or if the total commitments under the Senior Term Facilities Agreement have been reduced to zero, aggregated more than 50 per cent. of the total commitments under the Senior Term Facilities Agreement immediately prior to that reduction).

"Material Event of Default" means, generally, certain events of default relating to insolvency proceedings, failure to pay judgement debt and invalidity, ineffectiveness or unlawfulness of security, under each of the Revolving Facilities Agreement (prior to the Super Senior Discharge Date), the Senior Term Facilities Agreement (prior to the Senior Term Discharge Date), the Senior Bridge Facilities Agreement (prior to the Senior Bridge Discharge Date) and any Permitted Senior Financing Agreement (prior to the Permitted Senior Financing Discharge Date).

"Operating Facility" means any facility or financial accommodation (including, without limitation, any overdraft or other current account facility, any foreign exchange facility, any guarantee, bonding, documentary or standby letter of credit facility, any credit card or automated payments facility, any short term loan facility and any derivatives facility) provided to a member of the Group by an Operating Facility Lender which is notified to the Security Agent by the Parent in writing as a facility or financial accommodation to be treated as an "Operating Facility" for the purposes of the Intercreditor Agreement.

"Operating Facility Document" means, at the election of the Parent, any document relating to or evidencing an Operating Facility.

"Operating Facility Lender" means any person that executes or accedes to the Intercreditor Agreement as an Operating Facility Lender.

"Operating Facility Liabilities" means the liabilities owed by any Debtor to the Operating Facility Lenders under or in connection with the Operating Facility Documents.

"Permitted Parent Financing Agreement" means, in relation to any Permitted Parent Financing Debt, the facility agreement, indenture or other equivalent document by which that Permitted Parent Financing Debt is made available or, as the case may be, issued.

"Permitted Parent Financing Creditors" means, in relation to any Permitted Parent Financing Debt, each of the lenders, holders or other creditors in respect of that Permitted Parent Financing Debt from time to time (including the applicable Senior Parent Creditor Representative).

"Permitted Parent Financing Debt" means any indebtedness incurred by any member of the Group which is notified to the Security Agent by the Parent in writing as indebtedness to be treated as "Permitted Parent Financing Debt" for the purposes of the Intercreditor Agreement; provided that (a) the incurrence of such indebtedness is not prohibited by the terms of the Secured Debt Documents and (b) the providers of such indebtedness or the agent, trustee or other relevant representative in respect of that Permitted Parent Financing Debt have agreed to become a party to the Intercreditor Agreement, in each case unless already a party in that capacity.

"Permitted Parent Financing Documents" means, in relation to any Permitted Parent Financing Debt, the Permitted Parent Financing Agreement, any fee letter entered into under or in connection with the Permitted Parent Financing Agreement and any other document or instrument relating to that Permitted Parent Financing Debt and designated as such by the Parent and the Senior Parent Creditor Representative in respect of that Permitted Parent Financing Debt.

"Permitted Parent Financing Liabilities" means all liabilities of any Debtor to any Permitted Parent Financing Creditors under or in connection with the Permitted Parent Financing Documents.

"Permitted Second Lien Creditor Representative" means, in relation to any Permitted Second Lien Financing Debt, the agent, trustee or other relevant representative in respect of that Permitted Second Lien Financing Debt (including, if applicable, any Permitted Second Lien Notes Trustee).

"Permitted Second Lien Financing Agreement" means, in relation to any Permitted Second Lien Financing Debt, the facility agreement, indenture or other equivalent document by which that Permitted Second Lien Financing Debt is made available or, as the case may be, issued.

"Permitted Second Lien Financing Creditors" means, in relation to any Permitted Second Lien Financing Debt, each of the lenders, holders or other creditors in respect of that Permitted Second Lien Financing Debt from time to time (including the applicable Permitted Second Lien Creditor Representative).

"Permitted Second Lien Financing Debt" means any indebtedness incurred by any member of the Group which is notified to the Security Agent by the Parent in writing as indebtedness to be treated as "Permitted Second Lien Financing Debt" for the purposes of the Intercreditor Agreement; provided that (a) the incurrence of such indebtedness is not prohibited by the terms of the Secured Debt Documents and (b) the providers of such indebtedness or the agent, trustee or other relevant representative have agreed to become a party to the Intercreditor Agreement.

"Permitted Second Lien Financing Documents" means, in relation to any Permitted Second Lien Financing Debt, the Permitted Second Lien Financing Agreement, any fee letter entered into under or in connection with the Permitted Second Lien Financing Agreement and any other document or instrument relating to that Permitted Second Lien Financing Debt and designated as such by the Parent and the Permitted Second Lien Creditor Representative in respect of that Permitted Second Lien Financing Debt.

"Permitted Second Lien Financing Liabilities" means the liabilities of the Debtors to the Permitted Second Lien Financing Creditors under or in connection with the Permitted Second Lien Financing Documents (excluding amounts owing to any Permitted Second Lien Notes Trustee).

"Permitted Second Lien Notes Trustee" means any entity acting as trustee under an indenture in respect of Permitted Second Lien Financing Debt constituted by the issue of notes (to the extent it has acceded to the Intercreditor Agreement in such capacity).

"Permitted Senior Creditor Representative" means, in relation to any Permitted Senior Financing Debt, the agent, trustee or other relevant representative in respect of that Permitted Senior Financing Debt.

"Permitted Senior Financing Agreement" means, in relation to any Permitted Senior Financing Debt, the facility agreement, indenture or other equivalent document by which that Permitted Senior Financing Debt is made available or, as the case may be, issued.

"Permitted Senior Financing Creditors" means, in relation to any Permitted Senior Financing Debt, each of the lenders, holders or other creditors in respect of that Permitted Senior Financing Debt from time to time (including the applicable Permitted Senior Creditor Representative).

"Permitted Senior Financing Debt" means any indebtedness incurred by any member of the Group which is notified to the Security Agent by the Parent in writing as indebtedness to be treated as "Permitted Senior Financing Debt" for the purposes of the Intercreditor Agreement; provided that (a) the incurrence of such indebtedness is not prohibited by the terms of the Secured Debt Documents and (b) the providers of such indebtedness or the agent, trustee or other relevant representative in respect of that Permitted Senior Financing Debt have agreed to become a party to the Intercreditor Agreement in each case to the extent not already a party in that capacity.

"Permitted Senior Financing Discharge Date" means the first date on which all Permitted Senior Financing Liabilities have been fully and finally discharged (if applicable, including by way of defeasance permitted in accordance with the Permitted Senior Financing Documents), whether or not as a result of an enforcement, and the Permitted Senior Financing Creditors are under no further obligation to provide any financial accommodation to any of the Debtors under the Permitted Senior Financing Documents.

"Permitted Senior Financing Documents" means, in relation to any Permitted Senior Financing Debt, the Permitted Senior Financing Agreement, any fee letter entered into under or in connection with the Permitted Senior Financing Agreement and any other document or instrument relating to that Permitted Senior Financing Debt and designated as such by the Parent and the Permitted Senior Creditor Representative in respect of that Permitted Senior Financing Debt.

"Permitted Senior Financing Liabilities" means all liabilities of any Debtor to any Permitted Senior Financing Creditors under or in connection with the Permitted Senior Financing Documents.

"Primary Creditors" means the Super Senior Secured Creditors, the Senior Secured Creditors, the Second Lien Secured Creditors, the Senior Parent Creditors and the Hedge Counterparties.

"Primary Discharge Date" means the later to occur of the Super Senior Discharge Date, the Senior Discharge Date and the Second Lien Discharge Date.

"Primary Liabilities" means the Super Senior Liabilities, the Senior Liabilities and the Second Lien Liabilities.

"Primary Secured Parties" means the Super Senior Secured Creditors, the Senior Secured Creditors and the Second Lien Secured Creditors.

"Revolving Agent" means the agent under the Revolving Facilities Agreement.

"Revolving Arranger" means any arranger of the credit facilities under the Revolving Facilities Agreement.

"Revolving Event of Default" means an event of default (howsoever described) under any Revolving Finance Documents.

"Revolving Finance Documents" means, generally, the finance documents in relation to the Revolving Facilities Agreement.

"Revolving Lenders" means, generally, the lenders under the Revolving Facilities Agreement together with each issuing bank and ancillary lender under the Revolving Finance Documents.

"Revolving Liabilities" means the liabilities of the Debtors owed to the Revolving Lenders under the Revolving Finance Documents.

"Second Lien Acceleration Event" means an acceleration event under the Second Lien Facility Agreement or any Permitted Second Lien Financing Debt, as the context requires.

"Second Lien Agent" means the Second Lien Facility Agent and/or any Permitted Second Lien Creditor Representative, as the context requires.

"Second Lien Debt Documents" means, generally, the finance documents in relation to the Second Lien Facility Agreement and the Permitted Second Lien Financing Documents.

"Second Lien Discharge Date" means the first date on which the Second Lien Facility Liabilities and the Permitted Second Lien Financing Liabilities have been fully and finally discharged, whether or not as the result of an enforcement, and the Second Lien Facility Finance Parties and the Permitted Second Lien Financing Creditors are under no further obligation to provide financial accommodation to any of the Debtors under any of the finance documents in relation to the Second Lien Facility Agreement or the Permitted Second Lien Financing Documents (as applicable).

"Second Lien Event of Default" means an event of default (howsoever described) under a Second Lien Debt Document.

"Second Lien Facility Agent" means the agent under the Second Lien Facility Agreement.

"Second Lien Facility Arranger" means any arranger of the credit facilities under the Second Lien Facility Agreement.

"Second Lien Facility Finance Parties" means, generally, the finance parties in relation to the Second Lien Facility Agreement.

"Second Lien Facility Lender" means, generally, the lenders under the Second Lien Facility Agreement.

"Second Lien Facility Liabilities" means the liabilities of the Debtors owed to the lenders and the other Second Lien Facility Finance Parties under the finance documents in relation to the Second Lien Facility Agreement.

"Second Lien Liabilities" means the Second Lien Facility Liabilities and the Permitted Second Lien Financing Liabilities.

"Second Lien Secured Creditors" means the Second Lien Facility Finance Parties and the Permitted Second Lien Financing Creditors.

"Secured Creditors" means the Super Senior Secured Creditors, the Senior Secured Creditors and the Second Lien Secured Creditors.

"Secured Debt Documents" means the Revolving Finance Documents, the Operating Facility Documents, the Hedging Agreements, the Senior Debt Documents, the Second Lien Debt Documents, the Senior Parent Notes Finance Documents and/or the Permitted Parent Financing Documents, as the context requires.

"Secured Party" means, to the extent legally possible and subject to the Agreed Security Principles, each of the Security Agent, any receiver or delegate and each of the creditor representatives of the relevant secured creditors, each Agent, the Revolving Arrangers, the Senior Arrangers, the Second Lien Facility Arrangers, the Operating Facility Lenders, the Secured Creditors and the Senior Parent Creditors from time to time but, to the extent required by the Intercreditor Agreement, only if it is a party to the Intercreditor Agreement or has acceded to it, in the appropriate capacity, pursuant to its terms.

"Senior Acceleration Event" means an acceleration event under the Senior Term Facilities Agreement, the Senior Bridge Facilities Agreement or in relation to any Senior Notes or any Permitted Senior Financing Debt, as the context requires.

"Senior Agent" means each of the Senior Term Agent, the Senior Bridge Agent, any Senior Notes Trustee and/or any Permitted Senior Creditor Representative, as the context requires.

"Senior Arranger" means any arranger of the credit facilities under the Senior Term Facilities Agreement and the Senior Bridge Facilities Agreement.

"Senior Bridge Agent" means the agent under the Senior Bridge Facilities Agreement.

"Senior Bridge Discharge Date" means the first date on which all Senior Bridge Liabilities have been fully and finally discharged, whether or not as the result of an enforcement, and the Senior Bridge Finance Parties are under no further obligation to provide financial accommodation to any of the Debtors under any of the finance documents in relation to the Senior Bridge Facilities Agreement.

"Senior Bridge Finance Parties" means, generally, the finance parties in relation to the Senior Bridge Facilities Agreement.

"Senior Bridge Lender" means, generally, the lenders under the Senior Bridge Facilities Agreement.

"Senior Bridge Liabilities" means the liabilities of the Debtors owed to the lenders and the other Senior Bridge Finance Parties under the finance documents in relation to the Senior Bridge Facilities Agreement.

"Senior Debt Documents" means, generally, the finance documents in relation to the Senior Term Facilities Agreement, the finance documents in relation to the Senior Bridge Facilities Agreement, the Senior Notes Finance Documents and the Permitted Senior Financing Documents.

"Senior Discharge Date" means the first date on which each of the Senior Term Discharge Date, the Senior Bridge Discharge Date, the Senior Notes Discharge Date and the Permitted Senior Financing Discharge Date has occurred.

"Senior Event of Default" means an event of default (howsoever described) under any Senior Debt Document.

"Senior Liabilities" means the Senior Term Liabilities, the Senior Bridge Liabilities, the Senior Notes liabilities and the Permitted Senior Financing Liabilities.

"Senior Liabilities Transfer" means a transfer of the Senior Liabilities to all or any of the Second Lien Secured Creditors described under the caption "—Option to purchase: Second Lien Secured Creditors" or a transfer of the Senior Liabilities to all or any of the Senior Parent Creditors described under the caption "—Option to purchase: Senior Parent Creditors."

"Senior Noteholders" means the registered holders from time to time of the Senior Notes.

"Senior Notes" means high yield notes, exchange notes, debt securities and/or other debt instruments issued or to be issued by any member of the Group which are notified to the Security Agent by the Parent in writing as indebtedness to be treated as "Senior Notes" for the purposes of the Intercreditor Agreement.

"Senior Notes Creditors" means the Senior Noteholders and each Senior Notes Trustee.

"Senior Notes Discharge Date" means the first date on which all the Senior Notes liabilities have been fully and finally discharged, including by way of defeasance permitted in accordance with the Senior Notes Finance Documents, whether or not as the result of an enforcement.

"Senior Notes Finance Documents" means, generally, the Senior Notes, each indenture for the Senior Notes, guarantees of the Senior Notes, the Intercreditor Agreement, the relevant security documents securing the liabilities in respect of the Senior Notes and any other document entered into in connection with the Senior Notes and designated as such by the Parent and the applicable Senior Notes Trustee.

"Senior Notes Indenture" means any indenture pursuant to which any Senior Notes are issued.

"Senior Notes Trustee" means any entity acting as trustee under any issue of Senior Notes (to the extent it has acceded to the Intercreditor Agreement in such capacity).

"Senior Parent Creditor Representative" means, in relation to any Permitted Parent Financing Debt, the agent, trustee or other relevant representative in respect of that Permitted Parent Financing Debt.

"Senior Parent Creditors" means the Senior Parent Notes Creditors and any Permitted Parent Financing Creditors.

"Senior Parent Debt Issuer" means, generally, in relation to any Senior Parent Notes or Permitted Parent Financing Debt, the member of the Group which is the issuer or, as the case may be, the borrower of those Senior Parent Notes or that Permitted Parent Financing Debt; provided that no member of the Group which is (a) an issuer or, as the case may be, a borrower of any outstanding indebtedness under the Revolving Facilities Agreement, Senior Term Facilities Agreement, Senior Bridge Facilities Agreement, Second Lien Debt Documents, Senior Notes, outstanding Permitted Senior Financing Debt or outstanding Permitted Second Lien Financing Debt, or (b) a subsidiary of a member of the Group falling within the foregoing paragraph (a) (other than a subsidiary which is a certain financing vehicle), respectively, may be a Senior Parent Debt Issuer.

"Senior Parent Event of Default" means an Event of Default under any Senior Parent Notes Indenture and/or any Permitted Parent Financing Agreement, as the context requires.

"Senior Parent Finance Parties" means any Senior Parent Notes Trustee (on behalf of itself and the Senior Parent Noteholders that it represents), any Senior Parent Noteholder, the Security Agent and the Permitted Parent Financing Creditors.

"Senior Parent Liabilities" means the Senior Parent Notes Liabilities and any Permitted Parent Financing Liabilities.

"Senior Parent Noteholders" means the registered holders from time to time of the applicable Senior Parent Notes, as determined in accordance with the terms of the relevant Senior Parent Notes Indenture(s).

"Senior Parent Notes" means high yield notes, exchange notes, debt securities and/or other debt instruments issued or to be issued by any member of the Group which are notified to the Security Agent by the Parent in writing as indebtedness to be treated as "Senior Parent Notes" for the purposes of the Intercreditor Agreement.

"Senior Parent Notes Creditors" means, on and from the first Senior Parent Notes issue date, the Senior Parent Noteholders and each Senior Parent Notes Trustee.

"Senior Parent Notes Finance Documents" means, generally, the Senior Parent Notes, each indenture for the Senior Parent Notes, guarantees of the Senior Parent Notes, the Intercreditor Agreement, the relevant security documents securing the liabilities in respect of the Senior Parent Notes and any other document entered into in connection with the Senior Parent Notes and designated as such by the Parent and the applicable Senior Parent Notes Trustee.

"Senior Parent Notes Indenture" means each indenture pursuant to which any Senior Parent Notes are issued.

"Senior Parent Notes Liabilities" means, generally, the liabilities owed by any Debtor to the Senior Parent Notes Creditors and the Security Agent under the finance documents for the Senior Parent Notes (excluding, generally, certain amounts owed to the relevant Senior Parent Notes Trustee in respect of each issuance of Senior Parent Notes).

"Senior Parent Notes Trustee" means any entity acting as trustee under any issue of Senior Parent Notes (to the extent it has acceded to the Intercreditor Agreement in such capacity).

"Senior Secured Creditors" means the Senior Term Finance Parties, the Senior Bridge Finance Parties, the Senior Notes Creditors and the Permitted Senior Financing Creditors.

"Senior Secured Parties" means the Secured Parties other than the Senior Parent Finance Parties.

"Senior Term Agent" means the agent under the Senior Term Facilities Agreement.

"Senior Term Discharge Date" means the first date on which all Senior Term Liabilities have been fully and finally discharged, whether or not as the result of an enforcement, and the Senior Term Finance Parties are under no further obligation to provide financial accommodation to any of the Debtors under any of the finance documents in relation to the Senior Term Facilities Agreement.

"Senior Term Finance Parties" means, generally, the finance parties in relation to the Senior Term Facilities Agreement.

"Senior Term Lender" means, generally, the lenders under the Senior Term Facilities Agreement.

"Senior Term Liabilities" means the liabilities of the Debtors owed to the lenders and the other Senior Term Finance Parties under the finance documents in relation to the Senior Term Facilities Agreement.

"Shareholder Contribution" means (a) any subscription for shares issued by, and any capital contributions to, the Parent provided that any such shares or capital contributions are not redeemable at the option of their holder whilst any amount remains outstanding under the Senior Term Facilities Agreement, in each case unless permitted by the Senior Term Facilities Agreement; and/or (b) any loans, notes, bonds or like instruments issued by, or made to, the Parent which are subordinated to the facility under the Senior Term Facilities Agreement pursuant to the Intercreditor Agreement (with no right to prepayment or acceleration or cash return payable whilst any amount remains outstanding under the Senior Term Facilities Agreement, in each case unless permitted by the Intercreditor Agreement) or are otherwise subordinated to the Senior Term Facilities Agreement on terms satisfactory to the Senior Term Agent, acting reasonably.

"Subordinated Debt" means, generally, indebtedness which is expressly subordinated in right of payment to utilizations under the Senior Term Facilities Agreement and guarantees pursuant to a written agreement.

"Super Senior Discharge Date" means the first date on which the Super Senior Liabilities have been fully and finally discharged, whether or not as a result of enforcement, and the Revolving Lenders and the Hedge Counterparties are under no further obligation to provide financial accommodation to any of the Debtors under any of the Revolving Finance Documents or the relevant hedging agreements (as applicable).

"Super Senior Liabilities" means the Revolving Liabilities and the Hedging Liabilities.

"Super Senior Secured Creditors" means the Revolving Lenders and the Hedge Counterparties.

Debt Refinancing

The Intercreditor Agreement permits any of the liabilities under the debt documents to be refinanced, replaced, increased or otherwise restructured in whole or in part including by way of Permitted Senior Financing Debt, indebtedness incurred under the Second Lien Debt Documents, Permitted Second Lien Financing Debt and/or Permitted Parent Financing Debt or the issue of additional Senior Notes and/or

Senior Parent Notes and the introduction of a "super senior" credit facility (the "Priority Facility") or the establishment of new or additional Operating Facilities (each a "Debt Refinancing"). Each party to the Intercreditor Agreement shall be required to enter into any amendment to or replacement of the then current Secured Debt Documents and/or take such other action as is required by the Parent in order to facilitate such a Debt Refinancing including changes to, the taking of, or release and retake of, any guarantee or security, subject to certain conditions. At the option of the Parent, a Debt Refinancing may be made available on a basis which is senior to, pari passu with or junior to any of the other liabilities, shall be entitled to benefit from all or any of the security, may be made available on a secured or unsecured basis (subject to certain restrictions) and may be effected in whole or in part by way of a debt exchange, non-cash rollover or other similar or equivalent transaction, in each case unless otherwise prohibited by the Debt Financing Agreements. Under the terms of the Intercreditor Agreement, each Agent, each Secured Party and each Primary Creditor agrees that it shall co-operate with the Parent, each other member of the Group and each Agent in order to facilitate any Debt Refinancing (including by way of, at the request and cost of the Parent, executing any document or agreement and/or giving instructions to any person). In the event of any refinancing or replacement of all or any part of the facility under the Revolving Facilities Agreement or the Senior Liabilities (or any such refinancing or replacement indebtedness from time to time), the Parent shall be entitled to require that the definition of Instructing Group is amended such that the relevant refinancing or replacement indebtedness is treated in the same manner as the Revolving Facilities and Senior Liabilities (meaning that for the purpose of calculating the voting entitlement of any person, at the option of the Parent all or any part of the relevant refinancing or replacement indebtedness may be treated as Super Senior Credit Participations or Senior Credit Participations, each as defined under the caption "—Instructing Group"). In the event that any Priority Facility becomes subject to the provisions of the Intercreditor Agreement, the Parent shall be entitled to require that all or any part of the Hedging Liabilities and/or the Operating Facility Liabilities shall rank in right and priority of payment pari passu with that Priority Facility (which, for the avoidance of doubt, may result in such Hedging Liabilities and/or, as the case may be, Operating Facility Liabilities ranking ahead of the Senior Notes liabilities, the Permitted Senior Financing Liabilities, the Senior Parent Notes Liabilities and/or the Permitted Parent Financing Liabilities), in each case unless otherwise prohibited by the Debt Financing Agreements.

Any Priority Facility implemented pursuant to a Debt Refinancing shall comply with, among others, the following limitations:

Ranking of a Debt Refinancing

No liabilities or obligations in respect of any Priority Facility may rank in right and priority of payment ahead of the Super Senior Liabilities (other than as regards amounts of the type set out in paragraphs (i) and (ii) under the caption "—Application of Proceeds—Order of Application").

Subject to the paragraph above and to the extent not otherwise prohibited by the Debt Financing Agreements, any Priority Facility shall rank in right and priority of payment as determined by the Parent.

Enforcement: Debt Refinancing

In the event of any refinancing or replacement of all or any part of the Revolving Facilities or the Senior Liabilities (or any such refinancing or replacement indebtedness from time to time), the Parent shall be entitled to require that the definition of Instructing Group is amended such that the relevant refinancing or replacement indebtedness is treated in the same manner as the Revolving Facilities and Senior Liabilities (meaning that for the purpose of calculating the voting entitlement of any person, at the option of the Parent all or any part of the relevant refinancing or replacement indebtedness may be treated as Super Senior Credit Participations or Senior Credit Participations).

Option to Purchase

(a) The Senior Notes Creditors and the Permitted Senior Financing Creditors shall be provided with an 'option to purchase' right in relation to any liabilities in respect of a Priority Facility consistent in all material respects with the 'option to purchase' right provided in relation to the Senior Liabilities as set out under the captions "—Restrictions Relating to Super Senior Liabilities and Senior Liabilities" and "—Option to Purchase: Senior Notes Creditors and Permitted Senior Financing Creditors."

(b) The Senior Parent Agent(s) shall be provided with an 'option to purchase' right in relation to any liabilities in respect of a Priority Facility consistent in all material respects with the 'option to purchase' right as set out under caption "—Restrictions Relating to Senior Parent Creditors and Senior Parent Liabilities—Option to Purchase: Senior Parent Creditors."

Ranking and Priority

Priority of Debts

Subject to the provisions set out in the caption "—Senior Parent Liabilities and Security," the Intercreditor Agreement provides that the liabilities owed by the Debtors (other than any Senior Parent Debt Issuer to the extent relating to liabilities in respect of Senior Parent Notes and/or Permitted Parent Financing Debt where that Senior Parent Debt Issuer is the issuer or the borrower) to the Primary Creditors and the Operating Facility Lenders shall rank in right and priority of payment in the following order and are postponed and subordinated to any prior ranking liabilities as follows:

- first, the Super Senior Liabilities, the Senior Liabilities, the Second Lien Liabilities, the Operating Facility Liabilities, amounts due to a Revolving Arranger, Senior Arranger, Second Lien Facility Arranger, Senior Agent, Second Lien Agent, Senior Notes Trustee, the Permitted Second Lien Notes Trustee and amounts due the Senior Parent Notes Trustee *pari passu* and without any preference amongst them; and
- second, the Senior Parent Notes Liabilities and the Permitted Parent Financing Liabilities *pari passu* and without any preference amongst them.

The liabilities owed by a Senior Parent Debt Issuer (to the extent relating to liabilities in respect of Senior Parent Notes and/or Permitted Parent Financing Debt where that Senior Parent Debt Issuer is the issuer or the borrower) to the Primary Creditors and the Operating Facility Lenders shall rank *pari passu* in right and priority of payment without any preference among them.

Priority of Security

The Intercreditor Agreement provides that the security shall secure the liabilities (but only to the extent that such security is expressed to secure those liabilities) in the following order:

- first, the Super Senior Liabilities, the Senior Liabilities, the Operating Facility Liabilities, amounts due to a Revolving Arranger, Senior Arranger, Senior Agent, Senior Notes Trustee, Second Lien Agent, the Permitted Second Lien Notes Trustee and Senior Parent Notes Trustee *pari passu* and without any preference amongst them;
- second, the Second Lien Liabilities and amounts due to the Second Lien Facility Arrangers *pari passu* and without any preference amongst them; and
- third, the Senior Parent Notes Liabilities and the Permitted Parent Financing Liabilities *pari passu* between themselves and without any preference amongst them.

Senior Parent Liabilities and Security

The Senior Parent Liabilities and the Permitted Parent Financing Liabilities owed by a Senior Parent Debt Issuer (to the extent relating to liabilities in respect of Senior Parent Notes and/or Permitted Parent Financing Debt where that Senior Parent Debt Issuer is the issuer or the borrower) are senior obligations of that Senior Parent Debt Issuer. Notwithstanding the preceding sentence, until the Primary Discharge Date, creditors in relation to the Senior Parent Notes Liabilities and the Permitted Parent Financing Liabilities may not take any steps to appropriate the assets of a Senior Parent Debt Issuer subject to the security documents in connection with any Enforcement Action (as defined below), other than as expressly permitted by the Intercreditor Agreement.

Intra-Group Liabilities and Investor Liabilities

The Intercreditor Agreement provides that the liabilities owed by the Debtors to the Intra-Group Lenders and the liabilities owed by the Parent to the Investors are postponed and subordinated to the liabilities owed by the Debtors to the Primary Creditors and Operating Facility Lenders.

Additional and/or Refinancing Debt

The creditors under the Intercreditor Agreement and the Operating Facility Lenders acknowledge in the Intercreditor Agreement that the Debtors (or any of them) may wish to incur incremental borrowing liabilities (including guarantees of such liabilities) or refinance or replace borrowing liabilities (including incurring guarantee liabilities in respect of such refinancing or replacement). Such liabilities are intended to rank *pari passu* with any other liabilities and/or share *pari passu* in any security and/or to rank behind any other liabilities and/or to share in any security behind any such other liabilities.

The creditors under the Intercreditor Agreement and the Operating Facility Lenders undertake in the Intercreditor Agreement (at the cost of the Debtors) to co-operate with the Parent and the Debtors with a view to enabling and facilitating such financing, refinancing or replacement and such sharing in the security (provided it is not prohibited by the terms of the Debt Financing Agreements at such time) to take place in a timely manner. In particular, each of the Secured Parties authorizes and directs each of its respective agents and the Security Agent to execute any amendment to the Intercreditor Agreement and such other debt documents required by the Parent to reflect, enable and/or facilitate any such arrangements (including as regards the ranking of any such arrangements).

Anti-layering

The Intercreditor Agreement provides that until the Primary Discharge Date, no Debtor shall, without the approval of the Majority Second Lien Creditors, issue or allow to remain outstanding any liabilities that: (a) are secured or expressed to be secured by any asset, including pursuant to any transaction security, on a basis junior to any of the Super Senior Liabilities and the Senior Liabilities but senior to the Second Lien Liabilities (and for these purposes such liabilities will be treated as "senior" to the Second Lien Liabilities if the Second Lien Liabilities are not secured by such asset but the Super Senior Liabilities and the Senior Liabilities are secured, and such other liabilities would be, secured by such asset); (b) are expressed to rank or rank so that they are subordinated to any of the Super Senior Liabilities and the Senior Liabilities but are senior to the Second Lien Liabilities; or (c) are contractually subordinated in right of payment to any of the Super Senior Liabilities and the Senior Liabilities and senior in right of payment to the Second Lien Liabilities, in each case, unless such ranking or subordination arises as a matter of law and provided that this shall not restrict any Debtor or any other member of the Group from incurring, if permitted under the debt documents relating to the Super Senior Liabilities and/or the Senior Liabilities, Super Senior Liabilities and/or the Senior Liabilities which are entitled to receive the proceeds of enforcement of the security on a super senior basis to the other Super Senior Liabilities and/or the Senior Liabilities and/or which are contractually senior in right of payment to any of any other Super Senior Liabilities and/or the Senior Liabilities.

Restrictions Relating to Super Senior Liabilities and Senior Liabilities

The Parent and the Debtors may make payments of the Super Senior Liabilities and Senior Liabilities at any time. The Intercreditor Agreement provides that the Super Senior Secured Creditors, the Senior Secured Creditors, the Operating Facility Lenders, the Parent and the Debtors may at any time amend or waive the terms of the Revolving Finance Documents, the Senior Debt Documents and the Operating Facility Documents in accordance with their respective terms from time to time (and subject only to any consent required under them).

Security and Guarantees: Super Senior Secured Creditors and Senior Secured Creditors

The Super Senior Secured Creditors, the Senior Secured Creditors and the Operating Facility Lenders may take, accept or receive the benefit of:

(i) any security from any member of the Group in respect of any of the Super Senior Liabilities, Senior Liabilities and the Operating Facility Liabilities in addition to the shared security provided that, to the extent legally possible and subject to certain Agreed Security Principles:

  (A) the security provider becomes party to the Intercreditor Agreement as a Debtor (if not already a party in that capacity);

  (B) all amounts actually received or recovered by any Super Senior Secured Creditor, Senior Secured Creditor or Operating Facility Lender with respect to any such security shall immediately be paid to the Security Agent and applied in accordance with the provisions set out under the caption "—Application of Proceeds;" and

  (C) any such security may only be enforced in accordance with the provisions set out under the caption "—Enforcement of Security—Security Held by Other Creditors."

(ii) any guarantee, indemnity or other assurance against loss from any member of the Group regarding any of the Super Senior Liabilities, the Senior Liabilities or Operating Facility Liabilities in addition to those in:

  (A) the Revolving Finance Documents, the Senior Debt Documents or any Operating Facility Document;

(B) the Intercreditor Agreement; or

(C) any guarantee, indemnity or other assurance against loss in respect of any of the liabilities, the benefit of which (however conferred) is, to the extent legally possible and subject to certain Agreed Security Principles, given to all the Super Senior Secured Creditors, the Senior Secured Creditors and the Second Lien Secured Creditors in respect of their respective liabilities;

provided that, to the extent legally possible, and subject to certain Agreed Security Principles,

- the guarantee provider becomes party to the Intercreditor Agreement as a Debtor (if not already a party in that capacity); and
- such guarantee, indemnity or assurance against loss is expressed to be subject to the Intercreditor Agreement; and

(iii) any security, guarantee, indemnity or other assurance against loss from any member of the Group in connection with:

(A) any escrow or similar or equivalent arrangements entered into in respect of amounts which are being held (or will be held) by a person which is not a member of the Group prior to release of those amounts to a member of the Group; or

(B) any actual or proposed defeasance, redemption, prepayment, repayment, purchase or other discharge of any Super Senior Liabilities, Senior Liabilities and/or Operating Facility Liabilities (in each case provided that such defeasance, redemption, prepayment, repayment, purchase or other discharge is not prohibited by the terms of the Intercreditor Agreement).

Restriction on Enforcement: Super Senior Secured Creditors, Senior Secured Creditors and Operating Facility Lenders

The Intercreditor Agreement provides that none of the Super Senior Secured Creditors, Senior Secured Creditors or the Operating Facility Lenders may take certain Enforcement Action without the prior written consent of an Instructing Group (as defined below).

Notwithstanding the above restriction or anything to the contrary in the Intercreditor Agreement, after the occurrence of certain specified insolvency events (an "Insolvency Event") in relation to the Parent or a Debtor, each Super Senior Secured Creditor, Senior Secured Creditor or Operating Facility Lender may, to the extent it is able to do so under the relevant debt documents, take certain Enforcement Action and/or claim in the winding up, dissolution, administration, reorganization or similar insolvency event of the Parent or that Debtor (as applicable) for liabilities owing to it (but a Super Senior Secured Creditor, Senior Creditor or an Operating Facility Lender may not direct the Security Agent to enforce the common security in any manner).

Option to Purchase: Senior Notes Creditors and Permitted Senior Financing Creditors

Senior Notes Creditors holding at least a simple majority of the Senior Notes liabilities or Permitted Senior Financing Creditors holding at least a simple majority of the Permitted Senior Financing Liabilities (the "Senior Secured Acquiring Creditors") may, after the occurrence of an acceleration event which is continuing, by giving not less than 10 days' notice to the Security Agent, require the transfer to them (or to a nominee or nominees), in accordance with the applicable transfer provisions of the Intercreditor Agreement, of all, but not part, of the rights, benefits and obligations in respect of the Revolving Liabilities and the Operating Facility Liabilities if:

(a) that transfer is lawful and, subject to paragraph (b) below, otherwise permitted by the terms of the Revolving Facilities Agreement and the Operating Facility Documents;

(b) any conditions relating to such a transfer contained in the Revolving Facilities Agreement and the Operating Facility Documents are complied with, other than:

(i) any requirement to obtain the consent of, or consult with, a member of the Group in relation to such transfer, which consent or consultation shall not be required; and

(ii) to the extent to which all the Senior Secured Acquiring Creditors provide cash cover for any letter of credit, the consent of the relevant letter of credit issuing bank relating to such transfer;

(c) the Revolving Agent, on behalf of the Revolving Lenders, is paid an amount equal to the aggregate of:

(i) any amounts provided as cash cover by the Senior Secured Acquiring Creditors for any letter of credit (as envisaged in paragraph (b)(ii) above);

(ii) all of the Super Senior Liabilities at that time (whether or not due), including all amounts that would have been payable under the Revolving Facilities Agreement if the facility under the Revolving Facilities Agreement were being prepaid by the relevant Debtors on the date of that payment; and

(iii) all costs and expenses (including legal fees) incurred by the Revolving Agent and/or the Revolving Lenders and/or the Security Agent as a consequence of giving effect to that transfer;

(d) the Operating Facility Lenders are paid an amount equal to the aggregate of:

(i) all of the Operating Facility Liabilities at that time (whether or not due), including all amounts that would have been payable under the Operating Facility Documents if the Operating Facilities were being prepaid by the relevant Debtors on the date of that payment; and

(ii) all costs and expenses (including legal fees) incurred by the Operating Facility Lenders and/or the Security Agent as a consequence of giving effect to that transfer;

(iii) as a result of that transfer:

(A) the Revolving Lenders have no further actual or contingent liability to a Debtor under the Revolving Finance Documents; and

(B) the Operating Facility Lenders have no further actual or contingent liability to a Debtor under the Operating Facility Documents;

(e) an indemnity is provided from each of the Senior Secured Acquiring Creditors (other than any Senior Agent) or from another third-party acceptable to all the Revolving Lenders and the Operating Facility Lenders in a form reasonably satisfactory to each Revolving Lender and Operating Facility Lender in respect of all costs, expenses, losses and liabilities which may be sustained or incurred by any Revolving Lender or Operating Facility Lender in consequence of any sum received or recovered by any Revolving Lender or Operating Facility Lender from any person being required (or it being alleged that it is required) to be paid back by or clawed back from any Revolving Lender or Operating Facility Lender for any reason;

(f) the transfer is made without recourse to, or representation or warranty from, the Revolving Lenders or the Operating Facility Lenders, except that each Revolving Lender and Operating Facility Lender shall be deemed to have represented and warranted on the date of that transfer that it has the corporate power to effect that transfer and it has taken all necessary action to authorize the making by it of that transfer; and

(g) the Senior Parent Creditors have not exercised their rights to purchase as described under the provisions set out in the caption "—Option to Purchase: Senior Parent Creditors" or, having exercised such rights, have not failed to complete the acquisition of the relevant Super Senior Liabilities in accordance with such provisions.

Subject to the Intercreditor Agreement, the Senior Secured Acquiring Creditors may only require a transfer of the Revolving Liabilities or the Operating Facility Liabilities if, at the same time, they require a transfer of Hedging Liabilities in accordance with the Intercreditor Agreement and if, for any reason, such transfer cannot be made in accordance with the Intercreditor Agreement, no transfer of the Revolving Liabilities or the Operating Facility Liabilities (as applicable) may be required to be made.

At the request of a Senior Agent (on behalf of the Senior Secured Acquiring Creditors), the Revolving Agent and the Operating Facility Lenders shall notify that Senior Agent of the foregoing payable sums in connection with such transfer.

Instructing Group

The term "Instructing Group" means at any time:

(a) prior to the Senior Discharge Date:

(i) in relation to any instructions to the Security Agent to enforce the security or refrain or cease from enforcing the security or to take any other Enforcement Action:

(A) those Senior Secured Creditors whose Senior Credit Participations at that time aggregate to more than 66⅔% of the Total Senior Credit Participations at that time; and/or

(B) prior to the Super Senior Discharge Date, the Majority Super Senior Creditors, in each case as applicable in accordance with the provisions set out under the caption "—Consultation Period;" or

(ii) in relation to any other matter:

(A) those Senior Secured Creditors whose Senior Credit Participations at that time aggregate to more than 66⅔% of the Total Senior Credit Participations at that time; and

(B) prior to the Super Senior Discharge Date, the Majority Super Senior Creditors; and

(b) on or after the Senior Discharge Date but before the Second Lien Discharge Date, and subject always to the provisions set out under the caption "—Restrictions on Enforcement by Second Lien Secured Creditors," those Second Lien Secured Creditors whose Second Lien Credit Participations at that time aggregate to more than 66⅔% of the Total Second Lien Credit Participations at that time; and

(c) on or after the Second Lien Discharge Date but before the date of discharge of the Senior Parent Liabilities, and subject always to the provisions set out under the caption "—Restrictions on Enforcement by Senior Parent Creditors," the Majority Senior Parent Creditors.

In the foregoing definition of "Instructing Group":

"Majority Senior Parent Creditors" means, at any time, those Senior Parent Creditors whose Senior Parent Credit Participations at that time aggregate to more than 66⅔% of the total aggregate amount of all Senior Parent Credit Participations at that time;

"Majority Super Senior Creditors" means, at any time, those Super Senior Secured Creditors whose Super Senior Credit Participations at that time aggregate more than 66⅔% of the Total Super Senior Credit Participations at that time.

"Second Lien Credit Participation" means:

(a) in relation to a Second Lien Facility Lender, its aggregate commitments under the Second Lien Facility Agreement (whether drawn or undrawn); and

(b) in relation to a Permitted Second Lien Financing Creditor, the aggregate amount of its commitments under each Permitted Second Lien Financing Agreement (drawn or undrawn) and/or the principal amount of outstanding Permitted Second Lien Financing Debt held by that Permitted Second Lien Financing Creditor (as applicable and without double counting);

"Senior Credit Participation" means:

(a) in relation to a Senior Term Lender, its aggregate commitments under the Senior Term Facilities Agreement (whether drawn or undrawn);

(b) in relation to a Senior Bridge Lender, its aggregate commitments under the Senior Bridge Facilities Agreement (whether drawn or undrawn);

(c) in relation to a Senior Notes Creditor, the principal amount of outstanding Senior Notes liabilities held by that Senior Notes Creditor; and

(d) in relation to a Permitted Senior Financing Creditor, the aggregate amount of its commitments under each Permitted Senior Financing Agreement (drawn or undrawn) and/or the principal amount of outstanding Permitted Senior Financing Debt held by that Permitted Senior Financing Creditor (as applicable and without double counting);

"Senior Parent Credit Participation" means:

(a) in relation to a Senior Parent Notes Creditor, the principal amount of outstanding Senior Parent Notes Liabilities held by that Senior Parent Notes Creditor; and

(b) in relation to a Permitted Parent Financing Creditor, the aggregate amount of its commitments under each Permitted Parent Financing Agreement (drawn or undrawn and calculated in a manner consistent with the senior commitments) and/or the principal amount of outstanding Permitted Parent Financing Debt held by that Permitted Parent Financing Creditor (as applicable and without double counting);

"Super Senior Credit Participations" means, in relation to a Super Senior Secured Creditor, the aggregate of:

(a) its aggregate commitments under the Revolving Facilities Agreement (whether drawn or undrawn) (if any); and

(b) in respect of any hedging transaction of that Super Senior Secured Creditor under any hedging agreement that has, as of the date the calculation is made, been terminated or closed out in accordance with the terms of the Intercreditor Agreement, the amount, if any, payable to it under any hedging agreement in respect of that termination or close-out as of the date of termination or close-out (and before taking into account any interest accrued on that amount since the date of termination or close-out) to the extent that amount is unpaid (that amount to be certified by the relevant Super Senior Secured Creditor and as calculated in accordance with the relevant hedging agreement); and

(c) in respect of any hedging transaction of that Super Senior Secured Creditor under any hedging agreement that has, as of the date the calculation is made, not been terminated or closed out:

(i) if the relevant hedging agreement is based on an ISDA Master Agreement the amount, if any, which would be payable to it under that hedging agreement in respect of that hedging transaction, if the date on which the calculation is made was deemed to be an Early Termination Date (as defined in the relevant ISDA Master Agreement) for which the relevant Debtor is the Defaulting Party (as defined in the relevant ISDA Master Agreement); or

(ii) if the relevant hedging agreement is not based on an ISDA Master Agreement, the amount, if any, which would be payable to it under that hedging agreement in respect of that hedging transaction, if the date on which the calculation is made was deemed to be the date on which an event similar in meaning and effect (under that hedging agreement) to an Early Termination Date (as defined in any ISDA Master Agreement) occurred under that hedging agreement for which the relevant Debtor is in a position similar in meaning and effect (under that hedging agreement) to that of a Defaulting Party (under and as defined in the same ISDA Master Agreement),

that amount, in each case, to be certified by the relevant Super Senior Secured Creditor and as calculated in accordance with the relevant hedging agreement;

"Total Second Lien Credit Participations" means the aggregate of all the Second Lien Credit Participations at any time.

"Total Senior Credit Participations" means the aggregate of all the Senior Credit Participations at any time.

"Total Super Senior Credit Participations" means the aggregate of all the Super Senior Credit Participations at any time.

Restrictions Relating to Second Lien Creditors and Second Lien Liabilities

The Intercreditor Agreement provides that, prior to the later of the Super Senior Discharge Date and the Senior Discharge Date, the Debtors shall not, and the Parent shall procure that no other member of the Group will, make any payment of the Second Lien Liabilities at any time unless that payment is permitted by the provisions set out below under the captions "—Permitted Second Lien Payments," "—Permitted Second Lien Enforcement," "—Effect of Insolvency Event; Filing of Claims" or by a refinancing of the Second Lien Liabilities as permitted by the Intercreditor Agreement.

Permitted Second Lien Payments

Prior to the later of the Super Senior Discharge Date and the Senior Discharge Date, any member of the Group may make payments with respect to the Second Lien Liabilities (such payments, collectively, "Permitted Second Lien Payments"):

(a) if:

(i) the payment is of:

(A) any of the principal amount of the Second Lien Liabilities which is either (1) not prohibited from being paid by the Revolving Finance Documents or the Senior Debt Documents or (2) paid on or after the final maturity date of the relevant Second Lien Liabilities (subject to certain conditions); or

(B) any other amount which is not an amount of principal or capitalized interest;

(ii) no Second Lien Payment Stop Notice (as defined below) is outstanding; and

(iii) no payment default under the Revolving Finance Documents has occurred and is continuing (the "Super Senior Payment Default");

(iv) no payment default under the Senior Debt Documents has occurred and is continuing (the "Senior Payment Default"); or

(b) if (X) the Majority Revolving Lenders (the "Required Super Senior Consent") and (Y) the Majority Senior Term Lenders, Majority Senior Bridge Lenders, a Senior Notes Trustee and the Majority Permitted Senior Financing Creditors or the Permitted Senior Creditor Representative in respect of that Permitted Senior Financing Debt (as applicable) (the "Required Senior Consent") give prior consent to that payment being made;

(c) if the payment is of certain amounts due to the Second Lien Agent for its own account;

(d) of any costs and expenses of any holder of security in relation to protection, preservation or enforcement of such security;

(e) of costs, commissions, taxes, fees and expenses incurred in respect of or in relation to (or reasonably incidental to) any of the Second Lien Debt Documents (including in relation to any reporting or listing requirements under such documents);

(f) if the payment is funded directly or indirectly with the proceeds of any indebtedness incurred under the Second Lien Debt Documents and/or Senior Parent Notes;

(g) if the payment is funded directly or indirectly with the proceeds of a Shareholder Contribution or Subordinated Debt; or

(h) or any other amount not exceeding £5,000,000 in aggregate in any financial year of the Parent.

On or after the Super Senior Discharge Date and the Senior Discharge Date, the Debtors may make payments in respect of the Second Lien Liabilities at any time.

Second Lien Payment Blockage Provisions

Until the later of the Super Senior Discharge Date (except with the Required Super Senior Consent) and the Senior Discharge Date (except with the Required Senior Consent), no Debtor shall make (and the Parent shall procure that no other member of the Group will make), and no Second Lien Secured Creditor may receive from any other members of the Group, any Permitted Second Lien Payment (other than roll-up or capitalization of any amount or certain amounts due to the Second Lien Agent for its own account and subject to certain other exceptions) if:

(a) a Super Senior Payment Default or a Senior Payment Default is continuing; or

(b) a Material Event of Default is continuing, from the date which is one business day after the date on which the Revolving Agent and/or the Senior Agent delivers a payment stop notice (a "Second Lien Payment Stop Notice") specifying the event or circumstance in relation to that Material Event of Default to the Parent, the Security Agent, the Senior Parent Notes Trustee and any Senior Parent Creditor Representative until the earliest of:

- the date falling (a) 90 days after delivery of that Second Lien Payment Stop Notice if a Second Lien Event of Default is continuing in respect of non-payment of principal, interest or fees in respect of any Second Lien Liabilities; (b) 120 days after delivery of that Second Lien Payment Stop Notice if a Second Lien Event of Default is continuing in respect of breach of certain restrictive covenants set out in the Second Lien Facility Agreement or equivalent covenants in a Permitted Second Lien Financing Document; (c) 150 days after delivery of that Second Lien Payment Stop Notice if any other Second Lien Event of Default is continuing;
- in relation to payments of the Second Lien Liabilities, if a Second Lien Standstill Period is in effect at any time after delivery of that Second Lien Payment Stop Notice, the date on which that standstill period expires;
- the date on which the relevant Material Event of Default has been remedied or waived in accordance with the applicable Revolving Finance Documents or Senior Debt Documents, as applicable;
- the date on which the Revolving Agent or Senior Agent, as applicable, has delivered the relevant Second Lien Payment Stop Notice delivers a notice to the Parent, the Security Agent and the Second Lien Agents cancelling the Second Lien Payment Stop Notice;

- the Super Senior Discharge Date and the Senior Discharge Date have occurred; and
- the date on which the Security Agent or a Second Lien Agent takes Enforcement Action permitted under the Intercreditor Agreement against a Debtor.

Unless the Second Lien Agents waive this requirement, (i) a new Second Lien Payment Stop Notice may not be delivered unless and until 360 days have elapsed since the delivery of the immediately prior Second Lien Payment Stop Notice; and (ii) no Second Lien Payment Stop Notice may be delivered by a Senior Agent in reliance on a Material Event of Default more than 45 days after the date that Senior Agent received notice of that Material Event of Default.

The Revolving Agent and the Senior Agents may only serve one Second Lien Payment Stop Notice with respect to the same event or set of circumstances. Subject to the immediately preceding paragraph, this shall not affect the right of the Agents to issue a Second Lien Payment Stop Notice in respect of any other event or set of circumstances.

No Second Lien Payment Stop Notice may be served in respect of a Material Event of Default which had been notified to the Agents at the time at which an earlier Second Lien Payment Stop Notice was issued.

Any failure to make a payment due under any Second Lien Debt as a result of the issue of a Second Lien Payment Stop Notice or the occurrence of a Super Senior Payment Default or a Senior Payment Default shall not prevent (i) the occurrence of an Event of Default (as defined in any Second Lien Debt Document) as a consequence of that failure to make a payment in relation to the relevant Second Lien Debt Document; (ii) the issue of a Second Lien Enforcement Notice (as defined below) on behalf of the Second Lien Secured Creditors; (iii) any debt-for-equity transaction in respect of Second Lien Liabilities; (iv) payment of advisory or professional fees in respect of restructuring advice and/or valuations in respect of the Debtors provided to the Second Lien Secured Creditors not exceeding in aggregate £1,500,000; or (v) payment to the Second Lien Secured Creditors of fees in respect of amendments to, and consents or waivers of, the Second Lien Debt Documents in amounts not exceeding those paid to the Super Senior Secured Creditors and the Senior Secured Creditors in respect of amendments to, and consents or waivers of, the Revolving Finance Documents and the Senior Debt Documents, as applicable.

Payment Obligations and Capitalization of Interest Continue

No Debtor shall be released from the liability to make any payment (including of default interest, which shall continue to accrue) under any Second Lien Debt Document by the operation of the provisions set out under each section above under the caption "—Restrictions Relating to Second Lien Creditors and Second Lien Liabilities" even if its obligation to make such payment is restricted at any time by the terms of any of those provisions.

The accrual and capitalization of interest (if any) in accordance with the Second Lien Debt Documents shall continue notwithstanding the issue of a Second Lien Payment Stop Notice.

Cure of Second Lien Payment Stop

If:

(a) at any time following the issue of a Second Lien Payment Stop Notice or the occurrence of a Super Senior Payment Default or a Senior Payment Default, that Second Lien Payment Stop Notice ceases to be outstanding and/or (as the case may be) the Super Senior Payment Default or Senior Payment Default ceases to be continuing; and

(b) any Debtor then promptly pays to the Second Lien Secured Creditors an amount equal to any payments which had accrued under the Second Lien Debt Documents and which would have been Permitted Second Lien Payments but for that Second Lien Payment Stop Notice, a Super Senior Payment Default or Senior Payment Default,

then any event or circumstance specified to be an "Event of Default" in any of the Debt Financing Agreements (an "Event of Default") (including any cross default or similar provision under any other debt document) which may have occurred as a result of that suspension of payments shall be waived, and any Second Lien Enforcement Notice which may have been issued as a result of that Event of Default shall be waived, in each case without any further action being required on the part of the Second Lien Secured Creditors or any other creditor or Operating Facility Lender.

Restrictions on Enforcement by Second Lien Secured Creditors

Until the Super Senior Discharge Date and the Senior Discharge Date, except with the prior consent of or as required by an Instructing Group:

(a) no Second Lien Secured Creditor shall direct the Security Agent to enforce, or otherwise require the enforcement of any security; and

(b) no Second Lien Secured Creditor shall take or require the taking of any Enforcement Action in relation to the Second Lien Liabilities,

except as permitted under the provisions set out below under the caption "—Permitted Second Lien Enforcement."

Option to Purchase: Second Lien Secured Creditors

Subject to the following paragraphs, any of the Second Lien Secured Creditors or Second Lien Agents (on behalf of the Second Lien Secured Creditors) may, after an acceleration event under the Revolving Facilities Agreement (a "Revolving Acceleration Event"), a Senior Acceleration Event, the issue of a Second Lien Payment Stop Notice that is continuing or during a Second Lien Standstill Period that is continuing, by giving not less than 10 days' notice to the Security Agent, require the transfer to such Second Lien Secured Creditors of all, but not part, of the rights, benefits and obligations in respect of the Revolving Liabilities or the Senior Liabilities if:

(a) that transfer is lawful and, subject to paragraph (b) below, otherwise permitted by the terms of the Revolving Finance Documents and the Senior Debt Documents pursuant to which any relevant Revolving Liabilities or Senior Liabilities (as the case may be) remain outstanding;

(b) any conditions relating to such a transfer contained in the Revolving Finance Documents and the Senior Debt Documents pursuant to which any Revolving Liabilities or Senior Liabilities (as the case may be) remain outstanding are complied with other than as specified in the Intercreditor Agreement;

(c) the Revolving Agent on behalf of the finance parties in relation to the Revolving Facilities Agreement is paid the amounts required under the Intercreditor Agreement;

(d) the relevant Senior Agents on behalf of the Senior Secured Creditors are paid the amounts required under the Intercreditor Agreement;

(e) as a result of that transfer the Super Senior Secured Creditors or the Senior Secured Creditors (as applicable) have no further actual or contingent liability to the Parent or any other Debtor under the relevant debt documents;

(f) an indemnity is provided from each Second Lien Secured Creditor (other than any Second Lien Agent) (or from another third party acceptable to all the Super Senior Secured Creditors or the Senior Secured Creditors (as applicable)) in a form reasonably satisfactory to each Super Senior Secured Creditor or each Senior Secured Creditor (as applicable) in respect of all costs, expenses, losses and liabilities which may be sustained or incurred by any Super Senior Secured Creditor or any Senior Secured Creditor (as applicable) in consequence of any sum received or recovered by any Super Senior Secured Creditor or any Senior Secured Creditor (as applicable) from any person being required (or it being alleged that it is required) to be paid back by or clawed back from any Super Senior Secured Creditor or any Senior Secured Creditor (as applicable) for any reason; and

(g) the transfer is made without recourse to, or representation or warranty from, the Super Senior Secured Creditors or the Senior Secured Creditors (as applicable), except that each Super Senior Secured Creditor or each Senior Secured Creditor (as applicable) shall be deemed to have represented and warranted on the date of that transfer that it has the corporate power to effect that transfer and it has taken all necessary action to authorize the making by it of that transfer.

At the request of a Second Lien Agent (on behalf of all the Second Lien Secured Creditors), the relevant Revolving Agent and/or Senior Agent shall notify the Second Lien Agents of the foregoing payable sums in connection with such transfer.

Subject to the Intercreditor Agreement, any of the Second Lien Secured Creditors or a Second Lien Agent (on behalf of all the Second Lien Secured Creditors) may, by giving not less than 10 days' notice to the Security Agent, require a transfer of the hedging liabilities regulated by the Intercreditor Agreement if, at the same time, they require a transfer of the Super Senior Liabilities or all the Second Lien Secured Creditors (acting as a whole) require a transfer of the relevant hedging liabilities at any time on or after the Super Senior Discharge Date or a Second Lien Acceleration Event has occurred and is continuing or a Second Lien Standstill Period has commenced and is continuing or a Second Lien Payment Stop Notice has been issued and is continuing.

Enforcement Action

The term "Enforcement Action" comprises:

(a) in relation to any liabilities:

- the acceleration of any liabilities or the making of any declaration that any liabilities are prematurely due and payable (other than as a result of it becoming unlawful for a Super Senior Secured Creditor, a Senior Secured Creditor, a Second Lien Secured Creditor or a Senior Parent Creditor to perform its obligations under, or of any voluntary or mandatory prepayment arising under, any of the debt documents);
- the making of any declaration that any liabilities are payable on demand;
- the making of a demand in relation to a liability that is payable on demand;
- the making of any demand against any member of the Group in relation to any guarantee liabilities of that member of the Group;
- the exercise of any right to require any member of the Group to acquire any liability (including exercising any put or call option against any member of the Group for the redemption or purchase of any liability but excluding any such right which arises as a result of the permitted debt purchase transactions provisions of the Revolving Facilities Agreement, the Senior Term Facilities Agreement, the Senior Bridge Facilities Agreement or the Second Lien Facility Agreement (or any other similar or equivalent provision of any of the Revolving Finance Documents, the Operating Facility Documents, the hedging agreements regulated by the Intercreditor Agreement, the Senior Debt Documents, the Second Lien Debt Documents, the Senior Parent Notes Finance Documents and/ or the Permitted Parent Financing Documents (the "Secured Debt Documents")) and/or any other acquisition of liabilities, acquisition or transaction which any member of the Group is not prohibited from entering into by the terms of the Secured Debt Documents and excluding any mandatory offer arising as a result of a change of control or asset sale (howsoever described) as set out in the Senior Notes Finance Documents or the Senior Parent Notes Finance Documents (or any other similar or equivalent provision of any of the Secured Debt Documents);
- the exercise of any right of set-off, account combination or payment netting against any member of the Group in respect of any liabilities other than the exercise of any such right:
  (i) as close-out netting by a Hedge Counterparty or by a hedging ancillary lender;
  (ii) as payment netting by a Hedge Counterparty or by a hedging ancillary lender;
  (iii) as inter-hedging agreement netting by a Hedge Counterparty;
  (iv) as inter-hedging ancillary document netting by a hedging ancillary lender; and/or
  (v) which is otherwise permitted by the terms of any of the Secured Debt Documents, in each case to the extent that the exercise of that right gives effect to a permitted payment; and
- the suing for, commencing or joining of any legal or arbitration proceedings against any member of the Group to recover any liabilities;

(b) the premature termination or close-out of any hedging transaction under any hedging agreement, save to the extent permitted by the Intercreditor Agreement;

(c) the taking of any steps to enforce or require the enforcement of any security (including the crystallization of any floating charge forming part of the security),

(d) the entry into any composition, compromise, assignment or similar arrangement with any member of the Group which owes any liabilities, or has given any security, guarantee or indemnity or other assurance against loss in respect of the liabilities (other than any action permitted under the Intercreditor Agreement or any debt buy-back, tender offer, exchange offer or similar or equivalent arrangement not otherwise prohibited by the debt documents); or

(e) the petitioning, applying or voting for, or the taking of any steps (including the appointment of any liquidator, receiver, examiner, administrator or similar officer) in relation to the winding up, dissolution, examinership, administration or reorganization of any member of the Group which owes any liabilities, or has given any security, guarantee, indemnity or other assurance against loss in respect of any of the liabilities, or any of such member of the Group's assets or any suspension of payments or moratorium of any indebtedness of any such member of the Group, or any analogous procedure or step in any jurisdiction,

except that the following shall not constitute Enforcement Action:

- the taking of any action falling above which is necessary (but only to the extent necessary) to preserve the validity, existence or priority of claims in respect of liabilities, including the registration of such claims before any court or governmental authority and the bringing, supporting or joining of proceedings to prevent any loss of the right to bring, support or join proceedings by reason of applicable limitation periods; or
- a Secured Creditor or Senior Parent Creditor bringing legal proceedings against any person solely for the purpose of: (a) obtaining injunctive relief (or any analogous remedy outside England and Wales) to restrain any actual or putative breach of any debt document to which it is party, (b) obtaining specific performance (other than specific performance of an obligation to make a payment) with no claim for damages or (c) requesting judicial interpretation of any provision of any debt document to which it is party with no claim for damages; or
- bringing legal proceedings against any person in connection with any securities violation, securities or listing regulations or common law fraud; or
- to the extent entitled by law, the taking of any action against any creditor (or any agent, trustee or receiver acting on behalf of that creditor) to challenge the basis on which any sale or disposal is to take place pursuant to the powers granted to those persons under any relevant documentation; or
- any person consenting to, or the taking of any other action pursuant to or in connection with, any merger, consolidation, reorganization or any other similar or equivalent step or transaction initiated or undertaken by a member of the Group (or any analogous procedure or step in any jurisdiction) that is not prohibited by the terms of the Secured Debt Documents to which it is a party.

Permitted Second Lien Enforcement

The restrictions set out in the caption "—Restrictions on Enforcement by Second Lien Secured Creditors" above will not apply if:

(a) a Second Lien Event of Default (the "Relevant Second Lien Default") is continuing;

(b) the Revolving Agent and each Senior Agent has received a notice of the Relevant Second Lien Default specifying the event or circumstance in relation to the Relevant Second Lien Default from the relevant Second Lien Agent;

(c) a Second Lien Standstill Period (as defined below) has elapsed; and

(d) the Relevant Second Lien Default is continuing at the end of the relevant Second Lien Standstill Period.

Promptly upon becoming aware of a Second Lien Event of Default, the relevant Second Lien Agent may by notice (a "Second Lien Enforcement Notice") in writing notify the Revolving Agent and the Senior Agents of the existence of such Second Lien Event of Default.

Second Lien Standstill Period

In relation to a Relevant Second Lien Default, a Second Lien Standstill Period shall mean the period beginning on the date (the "Second Lien Standstill Start Date") the relevant Second Lien Agent serves a Second Lien Enforcement Notice on each of the Revolving Agent and the Senior Agents in respect of such Relevant Second Lien Default and ending on the earlier to occur of:

(a) the date falling 120 days after the Second Lien Standstill Start Date;

(b) the date the Primary Secured Parties (other than the Second Lien Secured Creditors) take any Enforcement Action in relation to a particular borrower or issuer of the relevant Second Lien Liabilities (a "Second Lien Borrower/Issuer") or any guarantor of the relevant Second Lien Liabilities (a "Senior Parent Guarantor"); provided, however, that if a Second Lien Standstill Period ends pursuant to this paragraph, the Second Lien Secured Creditors may only take the same Enforcement

Action in relation to the relevant Second Lien Borrower/Issuer or Second Lien Guarantor as the Enforcement Action taken by the Primary Secured Parties (other than the Second Lien Secured Creditors) against such Second Lien Borrower/Issuer or Second Lien Guarantor and not against any other member of the Group;

(c) the date of an Insolvency Event in relation to the relevant Second Lien Borrower/Issuer or a particular Second Lien Guarantor against whom Enforcement Action is to be taken;

(d) the expiry of any other Second Lien Standstill Period outstanding at the date such first mentioned Second Lien Standstill Period commenced (unless that expiry occurs as a result of a cure, waiver or other permitted remedy);

(e) the date on which the consent of each of the Revolving Agent (acting pursuant to a Required Super Senior Consent) and the Senior Agent (acting pursuant to a Required Senior Consent) has been obtained; and

(f) a failure to pay the principal amount outstanding under any Second Lien Debt Document at the final stated maturity of the amounts outstanding under that Second Lien Debt Document (provided that (i) unless the Super Senior Discharge Date and the Senior Discharge Date has occurred or is otherwise agreed pursuant to a Required Super Senior Consent, a Required Senior Consent and the Parent, the final stated maturity does not fall on a date prior to the date falling 85 months after the date of first utilization under the Revolving Facilities Agreement,

(the "Second Lien Standstill Period").

Subsequent Second Lien Default

The Second Lien Secured Creditors may take Enforcement Action under the provisions set out in caption "—Permitted Second Lien Enforcement" above in relation to a Relevant Second Lien Default even if, at the end of any relevant Second Lien Standstill Period or at any later time, a further Second Lien Standstill Period has begun as a result of any other Second Lien Event of Default.

Enforcement on Behalf of Second Lien Secured Creditors

If the Security Agent has notified the Second Lien Agents that it is enforcing security created pursuant to any security document over shares of a Second Lien Borrower/Issuer or a Second Lien Guarantor, no Second Lien Secured Creditor may take any action referred to under the provisions set out under the caption "—Permitted Second Lien Enforcement" above against that Second Lien Borrower/Issuer or that Second Lien Guarantor (or any subsidiary of them) while the Security Agent is taking steps to enforce that security in accordance with the instructions of an Instructing Group where such action might be reasonably likely to adversely affect such enforcement or the amount of proceeds to be derived therefrom.

Restrictions Relating to Senior Parent Creditors and Senior Parent Liabilities

Restriction on Payment and Dealings

The Intercreditor Agreement provides that, until the Primary Discharge Date, the Senior Parent Debt Issuer shall not (and the Parent shall ensure that no member of the Group will):

(a) pay, repay, prepay, redeem, acquire or defease any principal, interest or other amount on or in respect of, or make any distribution in respect of, any Senior Parent Liabilities in cash or in kind or apply any such money or property in or towards discharge of any Senior Parent Liabilities except as permitted by the provisions set out below under the captions "—Permitted Senior Parent Payments," "—Permitted Senior Parent Enforcement," and the fourth paragraph under the caption "—Effect of Insolvency Event; Filing of Claims" or by a refinancing of the Senior Parent Liabilities as permitted by the Intercreditor Agreement;

(b) exercise any set-off against any Senior Parent Liabilities, except as permitted by the provisions set out in the caption "—Permitted Senior Parent Payments," the provisions set out in the caption "—Restrictions on Enforcement by Senior Parent Creditors" or the fourth paragraph under the caption "—Effect of Insolvency Event; Filing of Claims" or by a refinancing of the Senior Parent Liabilities as permitted by the Intercreditor Agreement; or

(c) create or permit to subsist any security over any assets of any member of the Group or give any guarantee (and the Senior Parent Notes Trustee or Senior Parent Creditor Representative, as the case may be, may not, and no Senior Parent Creditor may, accept the benefit of any such security or guarantee from any member of the Group) for, or in respect of, any Senior Parent Liabilities other than:

(i) guarantees by a member of the Group of any obligations of a member of the Group under the Senior Parent Notes Finance Documents and/or the Permitted Parent Financing Documents;

(ii) at the option of the Parent, all or any of the security (provided that, for the avoidance of doubt, each of the parties agrees that the security shall rank and secure any Senior Parent Liabilities as set out in "—Ranking and Priority—Priority of Security");

(iii) any security over any assets of any Senior Parent Debt Issuer (other than, without prejudice to paragraph (ii) above, any such assets over which a Senior Parent Debt Issuer has granted security);

(iv) any other security or guarantee provided by a member of the Group (the "Credit Support Provider") provided that, to the extent legally possible:

(A) the Credit Support Provider becomes party to the Intercreditor Agreement as a Debtor (if not already a party in that capacity);

(B) all amounts actually received or recovered by the Senior Parent Notes Trustee, the Senior Parent Creditor Representative or the Senior Parent Creditors, as the case may be, with respect to any such security shall immediately be paid to the Security Agent and applied in accordance with the provisions set out under the caption "—Application of Proceeds;"

(C) any such security may only be enforced in accordance with the provisions set out under the caption "—Enforcement of Security—Security Held by Other Creditors;" and

(D) such guarantee is expressed to be subject to the Intercreditor Agreement; and

(v) any security, guarantee, indemnity or other assurance against loss from any member of the Group in connection with:

(A) any escrow or similar or equivalent arrangements entered into in respect of amounts which are being held (or will be held) by a person which is not a member of the Group prior to release of those amounts to a member of the Group; or

(B) any actual or proposed defeasance, redemption, prepayment, repayment, purchase or other discharge of any Super Senior Liabilities, Senior Liabilities, Operating Facility Liabilities, Senior Notes liabilities and any Permitted Senior Financing Liabilities (in each case provided that such defeasance, redemption, prepayment, repayment, purchase or other discharge is not prohibited by the terms of the Intercreditor Agreement).

Permitted Senior Parent Payments

Prior to the Primary Discharge Date, any member of the Group may make payments with respect to the Senior Parent Liabilities (such payments, collectively, "Permitted Senior Parent Payments"):

(a) if:

(i) the payment is of:

(A) any of the principal amount of the Senior Parent Liabilities which is either (1) not prohibited from being paid by the Revolving Finance Documents or the Senior Debt Documents or (2) paid on or after the final maturity date of the relevant Senior Parent Liabilities (subject to certain conditions); or

(B) any other amount which is not an amount of principal or capitalized interest;

(ii) no Super Senior/Senior/Second Lien/Senior Parent Payment Stop Notice (as defined below) is outstanding; and

(iii) no Super Senior Payment Default has occurred and is continuing;

(iv) no Senior Payment Default has occurred and is continuing;

(v) no payment default under the Second Lien Debt Documents has occurred and is continuing (the "Second Lien Payment Default"); or

(b) if (A) the Required Super Senior Consent and the Required Senior Consent have been obtained and (B) the Majority Second Lien Facility Lenders and the Majority Permitted Second Lien Financing Creditors or the Permitted Second Lien Creditor Representative in respect of that Permitted Second Lien Financing Debt (as applicable) (the "Required Second Lien Consent") give prior consent to that payment being made;

(c) if the payment is of certain amounts due to the Senior Parent Notes Trustee for its own account;

(d) if the payment is made by the relevant Senior Parent Debt Issuer and funded directly or indirectly with amounts which have not been received by that Senior Parent Debt Issuer from another member of the Group;

(e) of any costs and expenses of any holder of security in relation to protection, preservation or enforcement of such security;

(f) of costs, commissions, taxes, fees and expenses incurred in respect of or in relation to (or reasonably incidental to) any of the Senior Parent Finance Documents and any Permitted Parent Financing Documents (including in relation to any reporting or listing requirements under such documents);

(g) if the payment is funded directly or indirectly with Permitted Parent Financing Debt and/or the proceeds of any indebtedness under any Senior Parent Notes;

(h) if the payment is funded directly or indirectly with the proceeds of a Shareholder Contribution or Subordinated Debt; or

(i) or any other amount not exceeding £5,000,000 in aggregate in any financial year of the Parent.

On or after the Primary Discharge Date, the Debtors may make payments in respect of the Senior Parent Liabilities at any time.

Senior Parent Payment Blockage Provisions

Until the Super Senior Discharge Date (except with the Required Super Senior Consent), the Senior Discharge Date (except with the Required Senior Consent) and the Second Lien Discharge Date (except with the Required Second Lien Consent), no Senior Parent Debt Issuer shall make (and the Parent shall procure that no other member of the Group will make), and neither the Senior Parent Notes Trustee, any holder of Senior Parent Notes, the Security Agent or the Permitted Parent Financing Creditors may receive from any other members of the Group, any Permitted Senior Parent Payment (other than roll-up or capitalization of any amount or certain amounts due to the Senior Parent Notes Trustee for its own account and subject to certain other exceptions) if:

(a) a Super Senior Payment Default, a Senior Payment Default and/or a Second Lien Payment Default is continuing; or

(b) a Revolving Event of Default (other than a Super Senior Payment Default), a Senior Event of Default (other than a Senior Payment Default) or a Second Lien Event of Default (other than a Second Lien Payment Default) is continuing, from the date which is one business day after the date on which the Revolving Agent, any Senior Agent and/or any Second Lien Agent delivers a payment stop notice (a "Super Senior/Senior/Second Lien/Senior Parent Payment Stop Notice") specifying the event or circumstance in relation to that Revolving Event of Default, Senior Event of Default or Second Lien Event of Default to the Parent, the Security Agent, the Senior Parent Notes Trustee and any Senior Parent Creditor Representative until the earliest of:

- the date falling 179 days after delivery of that Super Senior/Senior/Second Lien/Senior Parent Payment Stop Notice;
- in relation to payments of the Senior Parent Liabilities, if a Senior Parent Standstill Period is in effect at any time after delivery of that Super Senior/Senior/Second Lien/Senior Parent Payment Stop Notice, the date on which that standstill period expires;
- the date on which the relevant Revolving Event of Default, Senior Event of Default and/or Second Lien Event of Default has been remedied or waived in accordance with the applicable Revolving Facilities Agreement, Senior Debt Document or Second Lien Debt Document;
- the date on which the Revolving Agent, Senior Agent or Second Lien Agent which delivered the relevant Super Senior/Senior/Second Lien/Senior Parent Payment Stop Notice delivers a notice to the Parent, the Security Agent and the other Agents cancelling the Senior Parent Payment Stop Notice;

- the Primary Discharge Date; and
- the date on which the Security Agent, the Senior Parent Notes Trustee or any Senior Parent Creditor Representative takes Enforcement Action permitted under the Intercreditor Agreement against a Debtor.

Unless the Senior Parent Notes Trustee and any Senior Parent Creditor Representative waive this requirement, (i) a new Super Senior/Senior/Second Lien/Senior Parent Payment Stop Notice may not be delivered unless and until 360 days have elapsed since the delivery of the immediately prior Super Senior/ Senior/Second Lien/Senior Parent Payment Stop Notice; and (ii) no Super Senior/Senior/Second Lien/ Senior Parent Payment Stop Notice may be delivered by the Revolving Agent, a Senior Agent or a Second Lien Agent in reliance on a Revolving Event of Default, a Senior Event of Default or a Second Lien Event of Default more than 45 days after the date that Revolving Agent, Senior Agent or Second Lien Agent received notice of that Revolving Event of Default, Senior Event of Default or Second Lien Event of Default.

The Revolving Agent, the Senior Agents and the Second Lien Agents may only serve one Super Senior/ Senior/Second Lien/Senior Parent Payment Stop Notice with respect to the same event or set of circumstances. Subject to the immediately preceding paragraph, this shall not affect the right of the Revolving Agent, the Senior Agents and/or the Second Lien Agents to issue a Super Senior/Senior/Second Lien/Senior Parent Payment Stop Notice in respect of any other event or set of circumstances.

No Super Senior/Senior/Second Lien/Senior Parent Payment Stop Notice may be served in respect of a Revolving Event of Default, Senior Event of Default or Second Lien Default which had been notified to the Agents at the time at which an earlier Super Senior/Senior/Second Lien/Senior Parent Payment Stop Notice was issued.

Any failure to make a payment due under any Senior Parent Finance Documents and any Permitted Parent Financing Documents as a result of the issue of a Super Senior/Senior/Second Lien/Senior Parent Payment Stop Notice or the occurrence of a Super Senior Payment Default, a Senior Payment Default or a Second Lien Payment Default shall not prevent (i) the occurrence of an Event of Default (as defined in any Senior Parent Indenture or any Permitted Parent Financing Agreement, as applicable) as a consequence of that failure to make a payment in relation to the relevant Senior Parent Notes Finance Document and any Permitted Parent Financing Documents; or (ii) the issue of a Senior Parent Enforcement Notice (as defined below) on behalf of the Senior Parent Creditors.

Payment Obligations and Capitalization of Interest Continue

Neither the relevant Senior Parent Debt Issuer nor any other Debtor shall be released from the liability to make any payment (including of default interest, which shall continue to accrue) under any Senior Parent Finance Document and any Permitted Parent Financing Document by the operation of the provisions set out under each section above under the caption "—Restrictions Relating to Senior Parent Creditors and Senior Parent Liabilities" even if its obligation to make such payment is restricted at any time by the terms of any of those provisions.

The accrual and capitalization of interest (if any) in accordance with any Senior Parent Finance Document and any Permitted Parent Financing Document shall continue notwithstanding the issue of a Super Senior/ Senior/Second Lien/Senior Parent Payment Stop Notice.

Cure of Payment Stop

If:

(a) at any time following the issue of a Super Senior/Senior/Second Lien/Senior Parent Payment Stop Notice or the occurrence of a Super Senior Payment Default or a Senior Payment Default, that Super Senior/Senior/Second Lien/Senior Parent Payment Stop Notice ceases to be outstanding and/or (as the case may be) the Super Senior Payment Default or Senior Payment Default ceases to be continuing; and

(b) the relevant Senior Parent Debt Issuer or the relevant Debtor then promptly pays to the Senior Parent Creditors an amount equal to any payments which had accrued under any Senior Parent Finance Document or any Permitted Parent Financing Document and which would have been Permitted Senior Parent Payments but for that Super Senior/Senior/Second Lien/Senior Parent Payment Stop Notice, a Super Senior Payment Default or Senior Payment Default, then any event or circumstance specified to be an "Event of Default" in any of the Debt Financing Agreements (an "Event of Default") (including any cross default or similar provision under any other debt document) which may have occurred as a result of that suspension of payments shall be waived, and any Senior Parent Enforcement Notice which may have been issued as a result of that Event of Default shall be waived, in each case without any further action being required on the part of the Senior Parent Creditors or any other Creditor or Operating Facility Lender.

Restrictions on Amendments and Waivers

The Intercreditor Agreement provides that the Senior Parent Creditors, the Senior Parent Debt Issuer and the Debtors may amend or waive the terms of the Senior Parent Notes Finance Documents and/or the Permitted Parent Financing Documents in accordance with their terms at any time (and subject only to any consent required under them).

Restrictions on Enforcement by Senior Parent Creditors

Until the Primary Discharge Date, except with the prior consent of or as required by an Instructing Group:

(a) no Senior Parent Creditor shall direct the Security Agent to enforce, or otherwise require the enforcement of any security; and

(b) no Senior Parent Creditor shall take or require the taking of any Enforcement Action in relation to the guarantees by a member of the Group of any of the obligations of a Senior Parent Debt Issuer under the Senior Parent Notes Finance Documents and/or Permitted Parent Financing Documents,

except as permitted under the provisions set out below under the caption "—Permitted Senior Parent Enforcement" provided, however, that no such action required by the Security Agent need be taken except to the extent the Security Agent otherwise is entitled under the Intercreditor Agreement to direct such action.

Option to Purchase: Senior Parent Creditors

Subject to the following paragraphs, any of the Senior Parent Agents (on behalf of the Senior Parent Creditors) may, after a Revolving Acceleration Event, a Senior Acceleration Event or a Second Lien Acceleration Event, by giving not less than 10 days' notice to the Security Agent, require the transfer to the Senior Parent Creditors of all, but not part, of the rights, benefits and obligations in respect of the Revolving Liabilities, the Senior Liabilities, the Second Lien Liabilities and the Operating Facility Liabilities if:

(a) that transfer is lawful and, subject to paragraph (b) below, otherwise permitted by the terms of the Revolving Facilities Agreement (in the case of the Revolving Liabilities), the relevant Senior Debt Documents (in the case of the Senior Liabilities), the relevant Second Lien Debt Documents (in the case of the Second Lien Liabilities) and/or any Operating Facility Documents (in the case of the Operating Facility Liabilities) (as applicable);

(b) any conditions relating to such a transfer contained in the Revolving Facilities Agreement (in the case of the Revolving Liabilities), the relevant Senior Debt Documents (in the case of the Senior Liabilities), the relevant Second Lien Debt Documents (in the case of the Second Lien Liabilities) and/or any Operating Facility Documents (in the case of the Operating Facility Liabilities) are complied with, in each case, other than as specified in the Intercreditor Agreement;

(c) each of the Revolving Agent (on behalf of the Revolving Lenders), the relevant Senior Agent (on behalf of the relevant Senior Term Lenders, the Senior Bridge Lenders, the Senior Notes Creditors and the Permitted Senior Financing Creditors), is paid the amounts required under the Intercreditor Agreement;

(d) the Operating Facility Lenders are paid the amounts required under the Intercreditor Agreement;

(e) the relevant Second Lien Agent (on behalf of the relevant Second Lien Facility Lenders and the Permitted Second Lien Financing Creditors, as applicable) is paid the amounts required under the Intercreditor Agreement;

(f) as a result of that transfer the Revolving Lenders, the Senior Term Lenders, the Senior Bridge Lenders, the Second Lien Facility Lenders, the Senior Notes Creditors, the Permitted Senior Financing Creditors, the Permitted Second Lien Financing Creditors and the Operating Facility Lenders have no further actual or contingent liability to the Parent or any other Debtor under the relevant Secured Debt Documents;

(g) an indemnity is provided from each Senior Parent Creditor (other than any Senior Parent Agent) (or from another third party acceptable to the relevant creditors) in a form reasonably satisfactory to each Senior Secured Creditor in respect of all costs, expenses, losses and liabilities which may be sustained or incurred by any Revolving Lender, Senior Term Lender, Senior Bridge Lender, Second Lien Facility Lender, Senior Notes Creditor, Permitted Senior Financing Creditor, Permitted Second Lien Financing Creditor or Operating Facility Lender in consequence of any sum received or recovered by any such party from any person being required (or it being alleged that it is required) to be paid back by or clawed back from any Revolving Lender, Senior Term Lender, Senior Bridge Lender, Second Lien Facility Lender, Senior Notes Creditor, Permitted Senior Financing Creditor, Permitted Second Lien Financing Creditor or Operating Facility Lender for any reason; and

(h) the transfer is made without recourse to, or representation or warranty from, any Revolving Lender, Senior Term Lender, Senior Bridge Lender, Second Lien Facility Lender, Senior Notes Creditor, Permitted Senior Financing Creditor, Permitted Second Lien Financing Creditor or Operating Facility Lender, except that each of them shall be deemed to have represented and warranted on the date of that transfer that it has the corporate power to effect that transfer and it has taken all necessary action to authorize the making by it of that transfer.

Subject to the Intercreditor Agreement, a Senior Parent Agent (on behalf of all the Senior Parent Creditors) may only require a Super Senior Liabilities Transfer and a Senior Liabilities Transfer if, at the same time, they require a transfer of hedging liabilities regulated by the Intercreditor Agreement and if, for any reason, such transfer cannot be made in accordance with the Intercreditor Agreement, no Super Senior Liabilities Transfer or Senior Liabilities Transfer may be required to be made.

At the request of a Senior Parent Agent (on behalf of all the Senior Parent Creditors), the relevant Senior Agent, the Second Lien Agent and the Operating Facility Lenders shall notify the Senior Parent Agents of the foregoing payable sums in connection with such transfer.

Permitted Senior Parent Enforcement

The restrictions set out in the caption "—Restrictions on Enforcement by Senior Parent Creditors" above will not apply if:

(a) a Senior Parent Event of Default (the "Relevant Senior Parent Default") is continuing;

(b) the Revolving Agent and each Senior Agent has received a notice of the Relevant Senior Parent Default specifying the event or circumstance in relation to the Relevant Senior Parent Default from the Senior Parent Notes Trustee or the Senior Parent Creditor Representative, as the case may be;

(c) a Senior Parent Standstill Period (as defined below) has elapsed; and

(d) the Relevant Senior Parent Default is continuing at the end of the relevant Senior Parent Standstill Period.

Promptly upon becoming aware of a Senior Parent Event of Default, the Senior Parent Notes Trustee or the Senior Parent Creditor Representative, as the case may be, may by notice (a "Senior Parent Enforcement Notice") in writing notify the Revolving Agent and each Senior Agent of the existence of such Senior Parent Event of Default.

Senior Parent Standstill Period

In relation to a Relevant Senior Parent Default, a Senior Parent Standstill Period shall mean the period beginning on the date (the "Senior Parent Standstill Start Date") the relevant Senior Parent Notes Trustee or the Senior Parent Creditor Representative, as the case may be, serves a Senior Parent Enforcement Notice on each of the Revolving Agent and the Senior Agents in respect of such Relevant Senior Parent Default and ending on the earlier to occur of:

(a) the date falling 179 days after the Senior Parent Standstill Start Date;

(b) the date the Primary Secured Parties take any Enforcement Action in relation to a particular guarantor of the Senior Parent Notes and any Permitted Parent Financing Debt (a "Senior Parent Guarantor"); provided, however, that if a Senior Parent Standstill Period ends pursuant to this paragraph, the Senior Parent Finance Parties may only take the same Enforcement Action in relation to the Senior Parent Guarantor as the Enforcement Action taken by the Primary Secured Parties against such Senior Parent Guarantor and not against any other member of the Group;

(c) the date of an Insolvency Event in relation to the relevant Senior Parent Debt Issuer or a particular Senior Parent Guarantor against whom Enforcement Action is to be taken;

(d) the expiry of any other Senior Parent Standstill Period outstanding at the date such first mentioned Senior Parent Standstill Period commenced (unless that expiry occurs as a result of a cure, waiver or other permitted remedy);

(e) the date on which the consent of each of the Revolving Agent (acting pursuant to a Required Super Senior Consent), the Senior Agent (acting pursuant to a Required Senior Consent) and any Second Lien Agent (acting pursuant to a Required Second Lien Consent) has been obtained; and

(f) a failure to pay the principal amount outstanding under the Senior Parent Notes or on any Permitted Parent Financing Debt, as the case may be, at the final stated maturity of the amounts outstanding under the Senior Parent Notes or on the Permitted Parent Financing Debt, as the case may be (provided that (i) unless the Super Senior Discharge Date has occurred or is otherwise agreed pursuant to a Required Super Senior Consent and agreed by the Parent, such final stated maturity does not fall on a date prior to the date falling 85 months after the after the date of first utilization under the Revolving Facilities Agreement, (ii) unless the Senior Discharge Date has occurred or is otherwise agreed pursuant to a Required Senior Consent and agreed by the Parent, such final stated maturity does not fall on a date prior to the date falling 85 months after the after the date of first utilization of any indebtedness under the Senior Debt Documents, and (iii) unless the Second Lien Discharge Date has occurred or is otherwise agreed pursuant to a Required Second Lien Consent and agreed by the Parent, such final stated maturity does not fall on a date prior to the date falling 97 months after the date of first utilization of any indebtedness under the Second Lien Debt Documents),

(the "Senior Parent Standstill Period").

Subsequent Senior Parent Notes Default

The Senior Parent Finance Parties may take Enforcement Action under the provisions set out in caption "—Permitted Senior Parent Enforcement" above in relation to a Relevant Senior Parent Default even if, at the end of any relevant Senior Parent Standstill Period or at any later time, a further Senior Parent Standstill Period has begun as a result of any other Senior Parent Event of Default.

Enforcement on Behalf of Senior Parent Creditors

If the Security Agent has notified each of the Senior Parent Notes Trustee and any Senior Parent Creditor Representative (collectively, the "Senior Parent Agents" and each, a "Senior Parent Agent") that it is enforcing security created pursuant to any security document over shares of a Senior Parent Guarantor, no Senior Parent Creditor may take any action referred to under the provisions set out under the caption "—Permitted Senior Parent Enforcement" above against that Senior Parent Guarantor while the Security Agent is taking steps to enforce that security in accordance with the instructions of an Instructing Group where such action might be reasonably likely to adversely affect such enforcement or the amount of proceeds to be derived therefrom.

Effect of Insolvency Event; Filing of Claims

The Intercreditor Agreement provides that, among other things, after the occurrence of an Insolvency Event in relation to any Debtor, or, following an acceleration event which is continuing, any member of the Group, any party entitled to receive a distribution out of the assets of that member of the Group in respect of liabilities owed to that party shall (in the case of any creditor or Operating Facility Lender, only to the extent that such distribution would otherwise constitute a receipt or recovery of a type subject to the provisions set out under the caption "—Turnover by the Creditors" and, in all cases, if prior to a distress event, only if required by the Security Agent acting on the instructions of an Instructing Group), subject to receiving payment instructions and any other relevant information from the Security Agent and to the extent it is able to do so, direct the person responsible for the distribution of the assets of that member of the Group to pay that distribution to the Security Agent until the liabilities owing to the Secured Parties have been paid in full. In this respect, the Security Agent shall apply distributions paid to it in accordance with the provisions set out under the caption "—Application of Proceeds."

Subject to certain exceptions, to the extent that any member of the Group's liabilities are discharged by way of set-off (mandatory or otherwise) after the occurrence of an Insolvency Event in relation to that member of the Group, any creditor and any Operating Facility Lender which benefited from that set-off shall (in the case of any creditor or Operating Facility Lender, only to the extent that the relevant discharge constitutes a receipt or recovery of a type subject to the provisions set out under the caption "—Turnover by the Creditors" and, in all cases, if prior to a distress event, only if required by the Security Agent acting on the instructions of an Instructing Group), subject to receiving payment instructions and any other relevant information from the Security Agent, pay an amount equal to the amount of the liabilities owed to it which are discharged by that set-off to the Security Agent for application in accordance with the provisions set out under the caption "—Application of Proceeds" and subject to certain exceptions.

Subject to the provisions set out under the caption "—Application of Proceeds," if the Security Agent or any other Secured Party receives a distribution in a form other than in cash in respect of any of the liabilities, the liabilities will not be reduced by that distribution until and except to the extent that the realization proceeds are actually applied towards the liabilities.

After the occurrence of an Insolvency Event in relation to any Debtor or, following an acceleration event which is continuing, any member of the Group, each creditor and each Operating Facility Lender irrevocably authorizes the Security Agent, on its behalf, to:

(a) take any Enforcement Action (in accordance with the terms of the Intercreditor Agreement) against that member of the Group;

(b) demand, sue, prove and give receipt for any or all of that member of the Group's liabilities;

(c) collect and receive all distributions on, or on account of, any or all of that member of the Group's liabilities; and

(d) file claims, take proceedings and do all other things the Security Agent considers reasonably necessary to recover that member of the Group's liabilities.

Each creditor and Operating Facility Lender will (i) do all things that the Security Agent reasonably requests in order to give effect to the matters referred to in this "—Effect of Insolvency Event; Filing of Claims" section and (ii) if the Security Agent is not entitled to take any of the actions contemplated by this "—Effect of Insolvency Event; Filing of Claims" section or if the Security Agent requests that a creditor or an Operating Facility Lender take that action, undertake that action itself in accordance with the instructions of the Security Agent or grant a power of attorney to the Security Agent (on such terms as the Security Agent may reasonably require, although a Senior Notes Trustee, a Permitted Second Lien Notes Trustee and the Senior Parent Notes Trustee shall be under no obligation to grant such powers of attorney) to enable the Security Agent to take such action.

Turnover by the Creditors

Subject to certain exceptions, the Intercreditor Agreement provides that if at any time prior to the Final Discharge Date, any Creditor or Operating Facility Lender receives or recovers from any member of the Group:

(a) any payment or distribution of, or on account of or in relation to, (i) any of the liabilities which is prohibited by the terms of the Intercreditor Agreement, or (ii) following the occurrence of the relevant distress event which is continuing, any Super Senior Liabilities, Senior Liabilities, Hedging Liabilities or Operating Facility Liabilities;

(b) other than as referred to in the second paragraph under the caption "—Effect of Insolvency Event; Filing of Claims" any amount by way of set-off in respect of any of the liabilities owed to it which does not give effect to a payment permitted under the Intercreditor Agreement;

(c) any amount:

    (i) on account of, or in relation to, any of the liabilities after the occurrence of a distress event including as a result of any litigation or proceedings against a member of the Group other than after the occurrence of an Insolvency Event in respect of that member of the Group; or

    (ii) by way of set-off in respect of any of the liabilities owed to it after the occurrence of a distress event,

other than, in each case, (A) any amount received or recovered in accordance with the provisions set out below under the caption "—Application of Proceeds;" and (B) in the case of intra-group liabilities, any amount received or recovered in accordance with the relevant provisions of the Intercreditor Agreement regulating the intra-group lender and intra-group liabilities (to the extent permitted to be received or recovered notwithstanding that an acceleration event is continuing);

(d) the proceeds of any enforcement of any security in accordance with the provisions set out below in the caption "—Application of Proceeds;" or

(e) subject to certain exceptions, any distribution in cash or in kind or payment of, or on account of or in relation to, any of the liabilities owed by any member of Group which is not in accordance with the provisions set out in the caption "—Application of Proceeds" and which is made as a result of, or after, the occurrence of an Insolvency Event in respect of that member of the Group,

that Creditor or Operating Facility Lender will (in the case of any receipts and recoveries referred to in paragraph (e) above, if a distress event has not occurred, only if required by the Security Agent acting on the instructions of an Instructing Group), subject to certain exceptions: (i) in relation to receipts and recoveries not received or recovered by way of set-off (x) hold an amount of that receipt or recovery equal to the relevant liabilities (or if less, the amount received or recovered) on trust for the Security Agent and subject to receiving payment instructions and any other relevant information from the Security Agent, promptly pay that amount to the Security Agent for application in accordance with the terms of the Intercreditor Agreement and (y) subject to receiving payment instructions and any other relevant information from the Security Agent, promptly pay an amount equal to the amount (if any) by which the receipt or recovery exceeds the relevant liabilities to the Security Agent for application in accordance with the terms of the Intercreditor Agreement; and (ii) in relation to receipts and recoveries received or recovered by way of set-off, subject to receiving payment instructions and any other relevant information from the Security Agent, promptly pay an amount equal to that receipt or recovery to the Security Agent for application in accordance with the terms of the Intercreditor Agreement.

Enforcement of Security

Enforcement Instructions

The Security Agent may refrain from enforcing the security unless instructed otherwise by (i) an Instructing Group; (ii) if required as set out under the third paragraph of this section, the Majority Second Lien Creditors; or (iii) if required as set out under the third paragraph of this section, the Majority Senior Parent Creditors.

Subject to the security having become enforceable in accordance with its terms (i) an Instructing Group; (ii) to the extent permitted to enforce or to require the enforcement of the security prior to the Super Senior Discharge Date and the Senior Discharge Date as described under the caption "—Restrictions Relating to Second Lien Creditors and Second Lien Liabilities" above, the Majority Second Lien Creditors or (iii) to the extent permitted to enforce or to require the enforcement of the security prior to the Senior Discharge Date as described under the caption "—Restrictions Relating to Senior Parent Creditors and Senior Parent Liabilities" above, the Majority Senior Parent Creditors, may give or refrain from giving, instructions to the Security Agent to enforce, or refrain from enforcing, the security as they see fit.

Prior to the Super Senior Discharge Date and the Senior Discharge Date, (i) if an Instructing Group has instructed the Security Agent not to enforce or to cease enforcing the security or (ii) in the absence of instructions from an Instructing Group, and, in each case, an Instructing Group has not required any Debtor to make a Distressed Disposal, the Security Agent shall give effect to any instructions to enforce the security which the Majority Second Lien Creditors are then entitled to give to the Security Agent as described under the caption "—Restrictions Relating to Second Lien Creditors and Second Lien Liabilities" above.

Prior to the Primary Discharge Date, (i) if an Instructing Group has instructed the Security Agent not to enforce or to cease enforcing the security or (ii) in the absence of instructions from an Instructing Group, and, in each case, an Instructing Group has not required any Debtor to make a Distressed Disposal, the Security Agent shall give effect to any instructions to enforce the security which the Majority Senior Parent Creditors are then entitled to give to the Security Agent as described under the caption "—Restrictions Relating to Senior Parent Creditors and Senior Parent Liabilities" above.

Subject to certain provisions of the Intercreditor Agreement, no Secured Party shall have any independent power to enforce, or to have recourse to enforce, any security or to exercise any rights or powers arising under the security documents except through the Security Agent.

Manner of Enforcement

If the security is being enforced as set forth above under the caption "—Enforcement Instructions," the Security Agent shall enforce the security in such manner (including, without limitation, the selection of any administrator, examiner or equivalent officer of any Debtor to be appointed by the Security Agent) as:

- an Instructing Group;
- prior to the Super Senior Discharge Date and the Senior Discharge Date, if (i) the Security Agent has, pursuant to the third paragraph under the caption "—Enforcement of Security" above, given effect to instructions given by the Majority Second Lien Creditors to enforce the security; and (ii) an Instructing Group has not given instructions as to the manner of enforcement of the security, the Majority Second Lien Creditors; or
- prior to the Primary Discharge Date, if (i) the Security Agent has, pursuant to the third paragraph under the caption "—Enforcement of Security" above, given effect to instructions given by the Majority Senior Parent Creditors to enforce the security; and (ii) an Instructing Group has not given instructions as to the manner of enforcement of the security, the Majority Senior Parent Creditors,

shall instruct or, in the absence of any such instructions, as the Security Agent sees fit (it being understood that, absent such instructions, the Security Agent may elect to take no action).

Exercise of Voting Rights

To the fullest extent permitted under applicable law, each Creditor (other than any Senior Notes Trustee, Permitted Second Lien Notes Trustee or Senior Parent Notes Trustee) and each Operating Facility Lender agrees with the Security Agent that it will cast its vote in any proposal put to the vote by, or under the supervision of, any judicial or supervisory authority in respect of any insolvency, pre-insolvency or rehabilitation or similar proceedings relating to any member of the Group as instructed by the Security Agent. The Security Agent shall give instructions for the purposes of this paragraph as directed by an Instructing Group. Notwithstanding the foregoing, no party can exercise or require any other creditor or Operating Facility Lender under the Intercreditor Agreement to exercise its power of voting or representation to waive, reduce, discharge, extend the due date for payment or otherwise reschedule any of the liabilities owed to that creditor or Operating Facility Lender.

Waiver of Rights

To the extent permitted under applicable law and subject to certain provisions of the Intercreditor Agreement, each of the Secured Parties and the Debtors waives all rights it may otherwise have to require that the security be enforced in any particular order or manner or at any particular time, or that any sum received or recovered from any person, or by virtue of the enforcement of any of the security or of any other security interest, which is capable of being applied in or towards discharge of any of the secured obligations, is so applied.

Security Held by Other Creditors

If any security is held by a Creditor or Operating Facility Lender other than the Security Agent, then that Creditor or Operating Facility Lender may only enforce that security in accordance with instructions given by an Instructing Group pursuant to the terms of the Intercreditor Agreement (and for this purpose references to the Security Agent shall be construed as references to that creditor or Operating Facility Lender).

Duties Owed

Pursuant to the Intercreditor Agreement, each of the Secured Parties and the Debtors acknowledges that, in the event that the Security Agent enforces, or is instructed to enforce, the security prior to the Primary Discharge Date, the duties of the Security Agent and of any receiver or delegate owed to any Senior Parent Creditors in respect of the method, type and timing of that enforcement or of the exploitation, management or realization of any of that security shall be no different to or greater than the duty that is owed by the Security Agent, receiver or delegate to the Debtors under general law.

Consultation Period

(a) Subject to paragraph (d) below, before giving any instructions to the Security Agent to enforce the security or refrain or cease from enforcing the security or to take any other Enforcement Action, the creditor representative(s) of the creditors of the Group represented in the Instructing Group concerned (and, if applicable, any relevant Hedge Counterparties) shall consult with each other creditor representative of the Creditors of the Instructing Group, each other Hedge Counterparty, each Operating Facility Lender and the Security Agent in good faith about the instructions to be given by the Instructing Group for a period of not less than 10 business days (or, in the case of any consultation involving a Senior Notes Trustee, a Senior Parent Notes Trustee or a creditor representative in respect of any high-yield notes, debt securities or other similar instruments, 30 days) from the date on which details of the proposed instructions are received by such creditor representative(s), Hedge Counterparties, Operating Facility Lenders and the Security Agent (or such shorter period as each creditor representative, Hedge Counterparty, Operating Facility Lender and the Security Agent shall agree) (the "Consultation Period"), and only following the expiry of a Consultation Period shall the Instructing Group be entitled to give any instructions to the Security Agent to enforce the security or refrain or cease from enforcing the security or take any other Enforcement Action.

(b) Subject to paragraph (c) below, in the event conflicting instructions are received from any other Instructing Group, the Security Agent shall enforce the security, refrain or cease from enforcing the security or, as the case may be, take the relevant other Enforcement Action in accordance with the instructions given by an Instructing Group referred to in paragraph (a)(i)(A) of the definition of Instructing Group as set out above (in each case, provided that such instructions are consistent with any applicable requirements of the Intercreditor Agreement and the security documents) and the terms of all instructions given by any other Instructing Group shall be deemed revoked.

(c) Prior to the Super Senior Discharge Date, if:

(i) the Super Senior Secured Creditors have not been fully repaid within six months of the end of the first Consultation Period;

(ii) the Security Agent has not commenced any enforcement of the security (or a transaction in lieu thereof) or other Enforcement Action within three months of the end of the first Consultation Period; or

(iii) an Insolvency Event has occurred and the Security Agent has not commenced any enforcement of the security (or a transaction in lieu thereof) or other Enforcement Action at that time,

then the Security Agent shall follow the instructions given by the Majority Super Senior Creditors (in each case provided that such instructions are consistent with any applicable requirements of the Intercreditor Agreement and the relevant security documents).

(d) Subject to paragraph (c) above, no Agent or Hedge Counterparty shall be obliged to consult in accordance with paragraph (a) above and an Instructing Group shall be entitled to give any instructions to the Security Agent to enforce the security or take any other Enforcement Action prior to the end of a Consultation Period (in each case provided that such instructions are consistent with any applicable requirements of the Intercreditor Agreement and the security documents) if:

(i) the security has become enforceable as a result of an Insolvency Event; or

(ii) the Instructing Group or any creditor representative of the creditors represented in the Instructing Group determines in good faith (and notifies each other creditor representative, the Hedge Counterparties and the Security Agent) that to enter into such consultations and thereby delay the commencement of enforcement of the security would reasonably be expected to have a material adverse effect on:

(A) the Security Agent's ability to enforce any of the security; or

(B) the realization proceeds of any enforcement of the security,

and, where this paragraph (d) applies:

(I) any instructions shall be limited to those necessary to protect or preserve the interests of the Super Senior Creditors or Senior Secured Creditors (as applicable) on behalf of which the relevant Instructing Group is acting in relation to the matters referred to in sub-paragraphs (A) and (B) above; and

(II) the Security Agent shall act in accordance with the instructions first received.

Proceeds of Disposals

Non-Distressed Disposals

The Security Agent is irrevocably authorized and instructed (at the request and cost of the relevant Debtor or the Parent) to promptly release (or procure that any other relevant person releases):

(a) any security (and/or any other claim relating to a debt document) over any asset which is the subject of:

(i) a disposal not prohibited by the terms of the Revolving Facilities Agreement, the Senior Term Facilities Agreement, the Senior Bridge Facilities Agreement, any Senior Notes Indenture, any Permitted Senior Financing Agreement, the Second Lien Facility Agreement, any Permitted Second Lien Financing Agreement, any Senior Parent Notes Indenture and any Permitted Parent Financing Agreement (each a "Debt Financing Agreement") (including a disposal to a member of the Group, but without prejudice to any obligation of any member of the Group in a Debt Financing Agreement to provide replacement security); or

(ii) any other transaction not prohibited by the terms of any Debt Financing Agreement pursuant to which that asset will cease to be held or owned by a member of the Group;

(b) any security (and/or any other claim relating to a debt document) over any document or agreement in order for any member of the Group to effect any amendment or waiver in respect of that document or agreement or otherwise exercise any rights, comply with any obligations or take any action in relation to that document or agreement (in each case to the extent not prohibited by the terms of any Debt Financing Agreement);

(c) any security (and/or any other claim relating to a debt document) over any asset of any member of the Group which has ceased to be a Debtor or will cease to be a Debtor simultaneously with such release; and

(d) any security (and/or any other claim relating to a debt document) over any other asset to the extent that such release is in accordance with the terms of the Debt Financing Agreements.

In the case of a disposal of shares or other ownership interests in a Debtor (or any holding company of any Debtor), or any other transaction pursuant to which a Debtor (or any holding company of any Debtor) will cease to be a member of the Group or a Debtor (including in connection with the resignation of that Debtor or the Debtor being designated as an Unrestricted Subsidiary), the Security Agent (on behalf of itself and the Secured Parties) shall (at the request and cost of the relevant Debtor or the Parent) promptly release (or procure the release of) that Debtor and its subsidiaries from all present and future liabilities under the Secured Debt Documents and the respective assets of such Debtor and its subsidiaries from the security and the Secured Debt Documents.

When making any request for a release pursuant to this "—Non-Distressed Disposals" section, the Parent shall confirm in writing to the Security Agent that:

(a) in the case of any release requested pursuant to paragraph (i) or (ii) above, the relevant disposal or other action is not prohibited by the terms of any Debt Financing Agreement; or

(b) in the case of any release requested pursuant to paragraph (iv) above, the relevant release is in accordance with terms of the Debt Financing Agreements;

and the Security Agent shall be entitled to rely on that confirmation for all purposes under the Secured Debt Documents.

The Security Agent shall (at the cost and expense of the relevant Debtor or the Parent but without the need for any further consent, sanction, authority or further confirmation from any creditor, Operating Facility Lender, other Secured Party or Debtor) promptly enter into such documentation and/or take such other action as the Parent (acting reasonably) shall require to give effect to any release or other matter described in the paragraph above.

If any member of the Group is required or permitted under the Revolving Finance Documents or the Senior Debt Documents to apply the proceeds of any disposal or other transaction in prepayment, redemption or any other discharge or reduction of any Super Senior Liabilities or Senior Liabilities (as applicable) then no such application of those proceeds shall require the consent of any other party or result in any breach of any Senior Parent Notes Finance Documents or Permitted Parent Financing Documents and any such application shall discharge in full any obligation to apply those proceeds in prepayment, redemption or any other discharge or reduction of any Senior Parent Liabilities. This paragraph is without prejudice to any right of any member of the Group to apply any proceeds of any disposal or other transaction in prepayment, redemption or any other discharge or reduction of any Senior Parent Liabilities to the extent permitted or contemplated by the Intercreditor Agreement or any other Senior Debt Document.

The Security Agent is irrevocably authorized by each Secured Party to (and will on the request and at the cost of the Parent):

(i) release the security; and

(ii) release each investor, each Debtor and each other member of the Group from all liabilities, undertakings and other obligations under the Secured Debt Documents,

on the Final Discharge Date (or at any time following such date on the request of the Parent).

Distressed Disposals

Generally, a "Distressed Disposal" is a disposal of an asset of a member of the Group which is (a) being effected at the request of an Instructing Group in circumstances where a security interest has become enforceable in accordance with the terms of the relevant security document(s), (b) being effected by enforcement of a security interest in accordance with the terms of the relevant security document(s) or (c) being disposed of to a third-party subsequent to a distress event.

If a Distressed Disposal of any asset of a member of the Group is being effected, the Security Agent is irrevocably authorized (at the cost of the relevant Debtor or the Parent and without any consent, sanction, authority or further confirmation from any creditor, Operating Facility Lender, other Secured Party or Debtor):

(a) to release the security interest or any other claim over that asset and execute and deliver or enter into any release of that security interest or claim and issue any letters of non-crystallization of any floating charge or any consent to dealing that may, in the discretion of the Security Agent, be considered necessary or desirable;

(b) if the asset which is disposed of consists of shares in the capital of a Debtor, to release:

  (i) that Debtor and any subsidiary of that Debtor from all or any part of its borrowing liabilities, its guarantee liabilities and its other liabilities;

  (ii) any security interest granted by that Debtor or any subsidiary of that Debtor over any of its assets; and

  (iii) any other claim of an investor, an intra-group lender, or another Debtor over that Debtor's assets or over the assets of any subsidiary of that Debtor,

  on behalf of the relevant creditors, Operating Facility Lenders, Debtors and certain creditor representatives;

(c) if the asset which is disposed of consists of shares in the capital of any holding company of a Debtor, to release:

  (i) that holding company and any subsidiary of that holding company from all or any part of its borrowing liabilities, its guarantees liabilities and its other liabilities;

  (ii) any security interest granted by that holding company or any subsidiary of that holding company over any of its assets; and

  (iii) any other claim of any investor, any intra-group lender or another Debtor over that holding company's assets or the assets of any subsidiary of that holding company,

  on behalf of the relevant creditors, Operating Facility Lenders, Debtors and certain creditor representatives;

(d) if the asset which is disposed of consists of shares in the capital of a Debtor or the holding company of a Debtor and the Security Agent (acting in accordance with the Intercreditor Agreement) decides to dispose of all or any part of the liabilities or the Debtor liabilities owed by that Debtor or holding company or any subsidiary of that Debtor or holding company:

  (i) (if the Security Agent (acting in accordance with the Intercreditor Agreement) does not intend that any transferee of those liabilities or Debtor liabilities (the "Transferee") will be treated as a

Primary Creditor or a Secured Party for the purposes of the Intercreditor Agreement), to execute and deliver or enter into any agreement to dispose of all or part of those liabilities or Debtor liabilities; provided that, notwithstanding any other provision of any debt document, the Transferee shall not be treated as a Primary Creditor or a Secured Party for the purposes of the Intercreditor Agreement; and

(ii) (if the Security Agent (acting in accordance with the Intercreditor Agreement) does intend that any Transferee will be treated as a Primary Creditor or a Secured Party for the purposes of the Intercreditor Agreement), to execute and deliver or enter into any agreement to dispose of:

(A) all (and not part only) of the liabilities owed to the Primary Creditors and the Operating Facility Lenders; and

(B) all or part of any other liabilities and the Debtor liabilities,

on behalf of, in each case, the relevant creditors, Operating Facility Lenders and Debtors;

(e) if the asset which is disposed of consists of shares in the capital of a Debtor or the holding company of a Debtor (the "Disposed Entity") and the Security Agent (acting in accordance with the Intercreditor Agreement) decides to transfer to another Debtor (the "Receiving Entity") all or any part of the Disposed Entity's obligations or any obligations of any subsidiary of that Disposed Entity in respect of the intra-group liabilities or the Debtor liabilities, to execute and deliver or enter into any agreement to:

(A) agree to the transfer of all or part of the obligations in respect of those intra-group liabilities or Debtor liabilities on behalf of the relevant intra-group lenders and Debtors to which those obligations are owed and on behalf of the Debtors which owe those obligations; and

(B) (if the Receiving Entity is a holding company of the Disposed Entity which is also a guarantor of Super Senior Liabilities or Senior Liabilities) to accept the transfer of all or part of the obligations in respect of those intra-group liabilities or Debtor liabilities on behalf of the Receiving Entity or Receiving Entities to which the obligations in respect of those intra-group liabilities or Debtor liabilities are to be transferred.

The net proceeds of each Distressed Disposal (and the net proceeds of any disposal of liabilities or Debtor liabilities) shall be paid to the Security Agent for application in accordance with the provisions set out under the caption "—Application of Proceeds" (to the extent that the asset disposed of constituted secured assets) as if those proceeds were the proceeds of an enforcement of the relevant security interest and, to the extent that any disposal of liabilities or Debtor liabilities has occurred, as if that disposal of liabilities or Debtor liabilities had not occurred.

In the case of a Distressed Disposal effected by, or at the request of, the Security Agent (acting in accordance with the Intercreditor Agreement), the Security Agent shall take reasonable care to obtain a fair market price in the prevailing market conditions (though the Security Agent shall not have any obligation to postpone any such Distressed Disposal or disposal of liabilities in order to achieve a higher price).

Where borrowing liabilities, guarantee liabilities and/or other liabilities in relation to a member of the Group would otherwise be released pursuant to the terms of the Intercreditor Agreement, the Creditor or Operating Facility Lender concerned may elect to have those borrowing liabilities, guarantee liabilities and/or, as the case may be, other liabilities transferred to the Parent in which case the Security Agent is irrevocably authorized (to the extent legally possible and at the cost of the relevant Debtor or the Parent and without any consent, sanction, authority or further confirmation from any creditor, Operating Facility Lender, other Secured Party or Debtor) to execute such documents as are required to so transfer those liabilities.

Subject to the immediately following paragraph, in the case of a Distressed Disposal effected by or at the request of the Security Agent (acting in accordance with the Intercreditor Agreement), unless the consent of each Senior Agent is otherwise obtained, it is a further condition to any release, transfer or disposal that the proceeds of such disposal are in cash (or substantially all in cash) and such sale or disposal is made pursuant to a "public auction" in respect of which the Primary Creditors are entitled to participate or, in circumstances where the Security Agent (acting in good faith) considers that a public auction is not reasonably practicable taking into account all relevant circumstances or following an attempted public auction the Primary Creditors (other than the Second Lien Secured Creditors and the Senior Parent Creditors) make the highest final binding offer of all the offers received but that offer is less than the aggregate par value of the Primary Liabilities (other than the Second Lien Liabilities and the Senior Parent Liabilities), an independent financial adviser has delivered an opinion in respect of such sale or disposal that the amount received in connection therewith is fair from a financial point of view taking into account all relevant circumstances, including the method of enforcement, provided that the liability of such financial adviser may be limited to the amount of its fees in respect of such engagement (it being acknowledged that the Security Agent shall have no obligation to select or engage any financial adviser unless it shall have been indemnified and/or secured and/or prefunded to its satisfaction).

If prior to the Second Lien Discharge Date a Distressed Disposal is being effected such that, generally, any Second Lien Liabilities will be release or disposed of or any security securing the Second Lien Liabilities will be released, it is a further condition to the release that either:

- each Second Lien Agent has approved the release; or
- where shares or assets of a borrower, issuer or guarantor in respect of the Second Lien Liabilities are sold:
  - (a) the proceeds of such sale or disposal are in cash (or substantially in cash);
  - (b) all claims of the Super Senior Secured Creditors, the Senior Secured Creditors, the Senior Notes Creditors, the Permitted Senior Financing Creditors and the Operating Facility Lenders (other than in relation to performance bonds or guarantees or similar instruments) against a member of the Group (if any), all of whose shares (other than any minority interest not owned by members of the Group) or assets are sold or disposed of pursuant to such Enforcement Action, are unconditionally released and discharged or sold or disposed of concurrently with such sale (and are not assumed by the purchaser or one of its affiliates), and all security interests under the security documents in respect of the shares or assets that are sold or disposed of is simultaneously and unconditionally released and discharged concurrently with such sale; provided that, if each of the Revolving Agent, Senior Term Agent, any Senior Notes Trustee and any relevant senior secured creditor representative (acting reasonably and in good faith):
    - (i) determines that the Super Senior Secured Creditors or the Senior Secured Creditors (as applicable) will recover a greater amount if such claim is sold or otherwise transferred to the purchaser or one of its affiliates and not released or discharged; and
    - (ii) serves a written notice on the Security Agent confirming the same,

    the Security Agent shall be entitled to sell or otherwise transfer such claim to the purchaser or one of its affiliates; and
  - (c) such sale or disposal is made:
    - (i) pursuant to a public auction in respect of which the Primary Creditors are entitled to participate; or
    - (ii) in circumstances where the Security Agent (acting in good faith) considers that a public auction is not reasonably practicable taking into account all relevant circumstances or following an attempted public auction the Primary Creditors (other than the Second Lien Secured Creditors and the Senior Parent Creditors) make the highest final binding offer of all the offers received but that offer is less than the aggregate par value of the Primary Liabilities (other than the Second Lien Liabilities and the Senior Parent Liabilities), an independent financial adviser has delivered an opinion in respect of such sale or disposal, that the amount received in connection therewith, generally, is fair from a financial point of view taking into account all relevant circumstances, including the method of enforcement, provided that the liability of such financial adviser may be limited to the amount of its fees in respect of such engagement (it being acknowledged that the Security Agent shall have no obligation to select or engage any financial adviser unless it shall have been indemnified and/or secured and/or prefunded to its satisfaction).

If prior to the Senior Parent Discharge Date a Distressed Disposal is being effected such that, generally, the guarantees of the Senior Parent Notes and the guarantees of any Permitted Parent Financing Debt or any security over the assets of a Senior Parent Debt Issuer or any Senior Parent Guarantor will be released and/or the Senior Parent Notes Liabilities and any Permitted Parent Financing Liabilities will be released or disposed of, it is a further condition to the release that either:

- the Senior Parent Notes Trustee and any Senior Parent Creditor Representative has approved the release; or

- where shares or assets of a Senior Parent Guarantor or assets of a Senior Parent Debt Issuer are sold:
  - (a) the proceeds of such sale or disposal are in cash (or substantially in cash); and
  - (b) all claims of the Super Senior Secured Creditors, Senior Secured Creditors and the Operating Facility Lenders (other than in relation to performance bonds or guarantees or similar instruments) against a member of the Group (if any), all of whose shares (other than any minority interest not owned by members of the Group) or assets are sold or disposed of pursuant to such Enforcement Action, are unconditionally released and discharged or sold or disposed of concurrently with such sale (and are not assumed by the purchaser or one of its affiliates), and all security interests under the security documents in respect of the shares or assets that are sold or disposed of is simultaneously and unconditionally released and discharged concurrently with such sale; provided that, if each of the Revolving Agent and the Senior Agent (acting reasonably and in good faith):
    - (i) determines that the Super Senior Secured Creditors or the Senior Secured Creditors (as applicable) will recover a greater amount if such claim is sold or otherwise transferred to the purchaser or one of its affiliates and not released or discharged; and
    - (ii) serves a written notice on the Security Agent confirming the same,

    the Security Agent shall be entitled to sell or otherwise transfer such claim to the purchaser or one of its affiliates; and
  - (c) such sale or disposal is made:
    - (i) pursuant to a public auction in respect of which the Primary Creditors are entitled to participate; or
    - (ii) where a financial adviser selected by the Security Agent has delivered an opinion in respect of such sale or disposal, that the amount received in connection therewith, generally, is fair from a financial point of view taking into account all relevant circumstances, including the method of enforcement, provided that the liability of such financial adviser may be limited to the amount of its fees in respect of such engagement (it being acknowledged that the Security Agent shall have no obligation to select or engage any financial adviser unless it shall have been indemnified and/or secured and/or prefunded to its satisfaction).

Application of Proceeds

Order of Application

The Intercreditor Agreement provides that all amounts from time to time received or recovered by the Security Agent pursuant to the terms of the debt documents or in connection with the realization or enforcement of all or any part of the relevant security interests (for the purposes of this "—Application of Proceeds" section and the "—Equalization" section, the "Recoveries") shall be applied by the Security Agent at any time as the Security Agent (in its discretion) sees fit, to the extent permitted by applicable law (and subject to the provisions of this "—Application of Proceeds" section), in the following order of priority:

- (a) in discharging any sums owing to the Revolving Agent (in respect of the amounts due to the Revolving Agent), each Senior Agent (in respect of the amounts due to the relevant Senior Agent), each Second Lien Agent (in respect of the amounts due to the relevant Second Lien Agent) and any Senior Parent Creditor Representative (in respect of amounts due to the relevant Senior Parent Creditor Representative), certain amounts payable to the Senior Notes Trustee, any Permitted Second Lien Notes Trustee or Senior Parent Notes Trustee, or any sums owing to the Security Agent, any receiver or any delegate on a pro rata and pari passu basis;
- (b) in payment of all costs and expenses incurred by certain creditor representatives, any Primary Creditor or any Operating Facility Lender in connection with any realization or enforcement of the security taken in accordance with the terms of the Intercreditor Agreement or any action taken at the request of the Security Agent under the Intercreditor Agreement;
- (c) in payment to:
  - (i) the Revolving Agent on its own behalf and on behalf of the Revolving Arrangers and the Revolving Lenders;

(ii) the Hedge Counterparties; and

(iii) the Operating Facility Lenders;

for application towards the discharge of:

(A) the liabilities of the Debtors owed to the Revolving Arrangers under or in connection with Revolving Facilities Agreement and the Revolving Liabilities (in accordance with the terms of the Revolving Finance Documents);

(B) the Hedging Liabilities (on a pro rata basis between the Hedging Liabilities of each Hedge Counterparty); and

(C) the Operating Facility Liabilities (on a pro rata basis between the Operating Facility Liabilities of each Operating Facility Lender);

on a pro rata basis and *pari passu* between paragraphs (A) to (C) above;

(d) in payment to:

(i) the Senior Term Agent on its own behalf and on behalf of the arrangers under the Senior Term Facilities Agreement and the Senior Term Lenders;

(ii) the Senior Bridge Agent on its own behalf and on behalf of the arrangers under the Senior Bridge Facilities Agreement and the Senior Bridge Lenders;

(iii) each Senior Notes Trustee on its own behalf and on behalf of the holders of the Senior Notes; and

(iv) each Permitted Senior Creditor Representative on its own behalf and on behalf of the arrangers with respect to the Permitted Senior Financing Debt and the Permitted Senior Financing Creditors;

for application towards the discharge of:

(A) the liabilities of the Debtors owed to the arrangers under or in connection with the Senior Term Facilities Agreement and the Senior Term Liabilities (in accordance with the terms of the finance documents in relation to the Senior Term Facilities Agreement);

(B) the liabilities of the Debtors owed to the arrangers under or in connection with the Senior Bridge Facilities Agreement and the Senior Bridge Liabilities (in accordance with the terms of the finance documents in relation to the Senior Bridge Facilities Agreement)

(C) the Senior Notes liabilities (other than sums owing to the Security Agent) (in accordance with the terms of the Senior Notes Finance Documents);

(D) the liabilities of the Debtors owing to the arrangers of the Permitted Senior Financing Debt and the Permitted Senior Financing Liabilities (other than the liabilities owing to a Senior Creditor Representative) (in accordance with the terms of the Permitted Senior Financing Documents and, if there is more than one Permitted Senior Financing Agreement, on a pro rata basis between the Permitted Senior Financing Debt in respect of each Permitted Senior Financing Agreement);

on a pro rata basis and *pari passu* between paragraphs (A) to (D) to above;

(e) in payment to:

(i) the Second Lien Facility Agent on its own behalf and on behalf of the Second Lien Facility Arrangers and Second Lien Facility Lenders; and

(ii) each Permitted Second Lien Creditor Representative on its own behalf and on behalf of the arrangers with respect to the Permitted Second Lien Financing Debt and the Permitted Second Lien Financing Creditors,

for application towards the discharge of:

(A) the liabilities of the Debtors owed to the Second Lien Facility Arrangers and the Second Lien Facility Liabilities (in accordance with the terms of the Second Lien Facility Finance Documents); and

(B) the liabilities of the Debtors owing to the arrangers of the Permitted Second Lien Financing Debt and the Permitted Second Lien Financing Liabilities (other than the liabilities owing to a Permitted Second Lien Creditor Representative) (in accordance with the terms of the Permitted Second Lien Financing Documents and, if there is more than one Permitted Second Lien Financing Agreement, on a pro rata basis between the Permitted Second Lien Financing Debt in respect of each Permitted Second Lien Financing Agreement),

on a pro rata basis and *pari passu* between paragraphs (A) and (C) above;

(f) in payment to:

(i) each Senior Parent Notes Trustee on its own behalf and on behalf of the Senior Parent Noteholders; and

(ii) each Senior Parent Creditor Representative on its own behalf and on behalf of the arrangers under the Permitted Parent Financing Debt and the Permitted Parent Financing Creditors,

for application towards the discharge of:

(A) the Senior Parent Notes Liabilities (other than any sums owing to the Security Agent) (in accordance with the terms of the Senior Parent Notes Finance Documents); and

(B) the liabilities of the Debtors owed to the arrangers of the Permitted Parent Financing Debt and the Permitted Parent Financing Liabilities (other than the liabilities owing to a Senior Parent Creditor Representative) (in accordance with the terms of the Permitted Parent Financing Documents and, if there is more than one Permitted Parent Financing Agreement, on a pro rata basis between the Permitted Parent Financing Debt in respect of each Permitted Parent Financing Agreement),

on a pro rata basis and *pari passu* between the immediately preceding paragraphs (A) and (B) above;

(g) if none of the Debtors is under any further actual or contingent liability under any Secured Debt Document, in payment to any person to whom the Security Agent is obliged to pay in priority to any Debtor; and

(h) the balance, if any, in payment to the relevant Debtor.

The Security Agent is authorized under the Intercreditor Agreement to hold any non-cash consideration received or recovered in connection with the realization or enforcement of all or any part of the security until cash is received for any such non-cash consideration, provided that the Security Agent may distribute any such non-cash consideration to a Secured Party which has agreed, on terms satisfactory to the Security Agent, to receive such non-cash consideration and the liabilities owed to that Secured Party shall be reduced by an amount equal to the value of that non-cash consideration upon receipt by that Secured Party of that non-cash consideration.

Liabilities of the Senior Parent Debt Issuer

Generally, all amounts from time to time received or recovered by the Security Agent from or in respect of the Senior Parent Debt Issuer pursuant to the terms of any debt document (other than in connection with the realization or enforcement of all or any part of the relevant security interests) shall be held by the Security Agent on trust to apply them at any time as the Security Agent (in its discretion) sees fit, to the extent permitted by applicable law, in the following order of priority:

(a) in accordance with paragraph (a) under the caption "—Application of Proceeds—Order of Application;"

(b) in accordance with paragraph (b) under the caption "—Application of Proceeds—Order of Application;"

(c) in accordance with paragraphs (c) to (f) under the caption "—Application of Proceeds—Order of Application," provided that payments will be made on a pro rata basis and pari passu between each of the payments referred to in the foregoing paragraphs (c) and (to the extent relating to liabilities in respect of Senior Parent Notes and/or Permitted Parent Financing Debt where the relevant Senior Parent Debt Issuer is the issuer or, as the case may be, the borrower) (f);

(d) if none of the Debtors is under any further actual or contingent liability under any Secured Debt Document, in payment to any person to whom the Security Agent is obliged to pay in priority to any Debtor; and

(e) the balance, if any, in payment to the relevant Debtor.

Equalization

The Intercreditor Agreement generally provides that:

(a) if, for any reason, any senior secured creditor liabilities, Senior Notes liabilities or Permitted Senior Financing Liabilities remain unpaid after the relevant enforcement date and the resulting losses are not borne by the relevant Senior Secured Creditors and the Operating Facility Lenders in the proportions which their respective exposures at the enforcement date bore to the aggregate exposures of all the relevant Senior Secured Creditors at the relevant enforcement date (or, in the case of Recoveries resulting from the realization or enforcement of all or any part of the security interests or a transaction in lieu thereof, in a manner reflecting the order of priority contemplated in the section captioned "—Application of Proceeds—Order of Application"), the relevant Senior Secured Creditors will make such payments among themselves as the Security Agent shall require to put the relevant Senior Secured Creditors in such a position that (after taking into account such payments) those losses are borne in those proportions (or, as the case may be, to otherwise reflect the order of priority contemplated in the section captioned "—Application of Proceeds—Order of Application");

(b) if, for any reason, any Second Lien Liabilities remain unpaid after the relevant enforcement date and the resulting losses are not borne by the Second Lien Facility Lenders and the Permitted Second Lien Financing Creditors in the proportions which their respective exposures at the enforcement date bore to the aggregate exposures of all the relevant Second Lien Facility Lenders and the Permitted Second Lien Financing Creditors at the relevant enforcement date (or, in the case of Recoveries resulting from the realization or enforcement of all or any part of the security interests or a transaction in lieu thereof, in a manner reflecting the order of priority contemplated in the section captioned "—Application of Proceeds—Order of Application"), the relevant Second Lien Facility Lenders and the Permitted Second Lien Financing Creditors will make such payments among themselves as the Security Agent shall require to put the relevant Second Lien Facility Lenders and the Permitted Second Lien Financing Creditors in such a position that (after taking into account such payments) those losses are borne in those proportions (or, as the case may be, to otherwise reflect the order of priority contemplated in the section captioned "—Application of Proceeds—Order of Application"); and

(c) if, for any reason, any Super Senior Liabilities or Operating Facility Liabilities remain unpaid after the relevant enforcement date and the resulting losses are not borne by the relevant Super Senior Secured Creditors and the Operating Facility Lenders in the proportions which their respective exposures at the enforcement date bore to the aggregate exposures of all the relevant Super Senior Secured Creditors and the Operating Facility Lenders at the relevant enforcement date (or, in the case of Recoveries resulting from the realization or enforcement of all or any part of the security interests or a transaction in lieu thereof, in a manner reflecting the order of priority contemplated in the section captioned "—Application of Proceeds—Order of Application"), the relevant Super Senior Secured Creditors and the Operating Facility Lenders will make such payments among themselves as the Security Agent shall require to put the relevant Super Senior Secured Creditors and the Operating Facility Lenders in such a position that (after taking into account such payments) those losses are borne in those proportions (or, as the case may be, to otherwise reflect the order of priority contemplated in the section captioned "—Application of Proceeds—Order of Application").

Required Consents

The Intercreditor Agreement provides that, subject to certain exceptions, it and/or a security document may be amended or waived only with the written consent of:

(a) if the relevant amendment or waiver (the "Proposed Amendment") is prohibited by the Revolving Facilities Agreement, the Revolving Agent (acting on the instructions of the Majority Revolving Lenders);

(b) if the Proposed Amendment is prohibited by the Senior Debt Documents, the relevant Senior Agent (acting on the instructions of the requisite Senior Secured Creditors) or, in respect of any Senior Notes that have been issued, the Senior Notes Trustee;

(c) if the Proposed Amendment is prohibited by the Second Lien Debt Documents, the relevant Second Lien Agent (acting on the instructions of the requisite Second Lien Secured Creditors) or, in respect of any Permitted Second Lien Financing Debt constituted by notes that have been issued, the Permitted Second Lien Notes Trustee in respect thereof;

(d) if any Senior Parent Notes have been issued and the Proposed Amendment is prohibited by the terms of the relevant Senior Parent Notes Indenture, the Senior Parent Notes Trustee;

(e) if any Permitted Parent Financing Debt has been incurred and the Proposed Amendment is prohibited by the terms of the relevant Permitted Parent Financing Agreement, the Senior Parent Creditor Representative in respect of that Permitted Parent Financing Debt (if applicable, acting on the instructions of the Majority Permitted Parent Financing Creditors);

(f) if a Hedge Counterparty is providing hedging to a Debtor under a Hedging Agreement, that Hedge Counterparty (in each case only to the extent that the relevant amendment or waiver adversely affects the continuing rights and/or obligations of that Hedge Counterparty and is an amendment or waiver which is expressed to require the consent of that Hedge Counterparty under the applicable Hedging Agreement, as notified by the Parent to the Security Agent at the time of the relevant amendment or waiver);

(g) if an Operating Facility Lender is providing one or more facility to a Debtor under an Operating Facility Document, that Operating Facility Lender (in each case only to the extent that the relevant amendment or waiver adversely affects the continuing rights and/or obligations of that Operating Facility Lender and is an amendment or waiver which is expressed to require the consent of that Operating Facility Lender under the applicable Operating Facility Document, as notified by the Parent to the Security Agent at the time of the relevant amendment or waiver);

(h) certain investors as permitted under the Intercreditor Agreement; and

(i) the Parent.

Notwithstanding the foregoing, any amendment or waiver of any Secured Debt Document that is made or effected in connection with any Debt Refinancing (see "—Debt Refinancing" above), any incurrence of additional and/or refinancing debt (as referred to in "—Ranking and Priority—Additional and/or Refinancing Debt" above) or "non-Distressed Disposal" (see "—Proceeds of Disposals—Non-Distressed Disposals") or any other provision of the Intercreditor Agreement or in connection with any other provision of any Secured Debt Document (provided that such amendment or waiver is not expressly prohibited by the terms of any other Secured Debt Document) shall be binding on all parties to the Intercreditor Agreement.

The Intercreditor Agreement or a security document may be amended by the Parent and the Security Agent without the consent of any other party, to cure defects or omissions, resolve ambiguities or inconsistencies or reflect changes of a minor, technical or administrative nature, or as otherwise for the benefit of all or any of the Secured Parties.

Any amendment, waiver or consent which relates only to the rights or obligations applicable to creditors under a particular Debt Financing Agreement (and which does not materially and adversely affect the rights or interests of creditors under other Debt Financing Agreements) may be approved with only the consent of the creditor representative in respect of that Debt Financing Agreement and the Parent.

Amendments and Waivers: Security Documents

Subject to the paragraph below and to certain exceptions under the Intercreditor Agreement and unless the provisions of any debt document expressly provide otherwise, the Security Agent may, if authorized by an Instructing Group, and if the Parent consents, amend the terms of, waive any of the requirements of or grant consents under, any of the security documents which shall be binding on each party.

Subject to the second and third paragraphs of the section captioned "—Exceptions," any amendment or waiver of, or consent under, any security document which would adversely affect the nature or scope of the charged property or the manner in which the proceeds of enforcement of the security are distributed requires approval as set out under the section captioned "—Required Consents."

Guarantees

The Intercreditor Agreement additionally provides for Hedge Counterparties and Operating Facility Lenders (each as defined above) to receive guarantees and indemnities from the Debtors on substantially the same terms (including the relevant limitations) as such guarantees and indemnities are provided by the obligors to the finance parties under the Senior Term Facilities Agreement.

Exceptions

Subject to the following paragraphs of this "—Exceptions" section, an amendment, waiver or consent which adversely relates to the express rights or obligations of an agent, an arranger or the Security Agent (in each case in such capacity) may not be effected without the consent of that agent, that arranger or the Security Agent (as the case may be) at such time.

The foregoing shall not apply:

- to any release of security, claim or liabilities; or
- to any consent,

which, in each case, the Security Agent gives in accordance with the provisions set out in the caption "—Proceeds of Disposals" above.

The first paragraph of this "—Exceptions" section shall apply to an arranger only to the extent that the arranger liabilities are then owed to that arranger.

Agreement to Override

Unless expressly stated otherwise in the Intercreditor Agreement, the Intercreditor Agreement overrides anything in the debt documents to the contrary.

The Unique Securitized Notes and the Unique Intercompany Loan Agreement

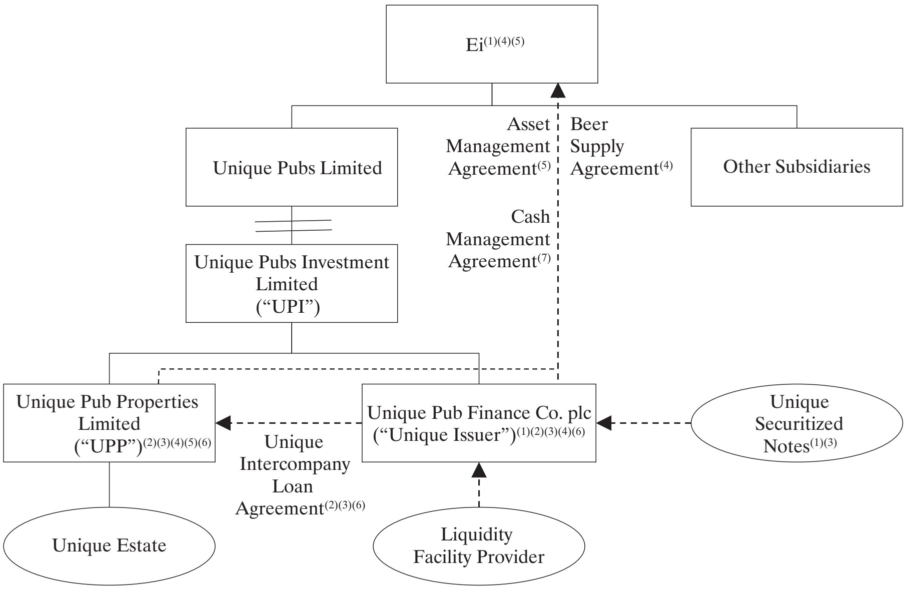
Ei is the holding company of Unique Pubs Limited ("UPL" and together with its subsidiaries, the "Unique Group"). Companies in the Unique Group are party to a securitization transaction (the "Unique Securitization") pursuant to which The Unique Pub Finance Company plc (the "Unique Issuer"), a financing subsidiary within the Unique Group, has raised debt through the issuance of various tranches of notes secured on, among other things, a portfolio of pub properties (the "Unique Estate"), the beneficial title to which is held by Unique Pub Properties Limited ("UPP"), another subsidiary within the Unique Group.

UPP and the Unique Issuer are wholly-owned subsidiaries of Unique Pub Investments Limited ("UPI"). Pursuant to a deed poll dated March 30, 1999, UPI has represented that it is the sole beneficial (and, in the case of UPP, the sole legal) owner of the shares in UPP and the Unique Issuer and has covenanted, among other things, not to dispose of any of its assets including its shares and that it will not have any subsidiaries other than UPP and the Unique Issuer.

As of March 28, 2020, the following notes (together, the "Unique Securitized Notes") issued by the Unique Issuer were outstanding:

- £263.0 million Class A4 5.659% Notes due over a period to June 2027 (the "Class A Unique Notes");
- £225.0 million Class M 7.395% Notes due over a period from June 2021 to March 2024 (the "Class M Unique Notes"); and
- £190.0 million Class N 6.464% Notes due over a period from September 2027 to March 2032 (the "Class N Unique Notes").

The following diagram sets out a simplified corporate structure and the principal arrangements in relation to the Unique Securitized Notes:



(1) The Unique Pub Finance Company plc, an indirect subsidiary of Ei, is the issuer of the Unique Securitized Notes. The Law Debenture Trust Corporation plc is the trustee in respect of the Unique Securitized Notes (the "Unique Trustee").
(2) The net proceeds of each tranche of the Unique Securitized Notes have been applied by the Unique Issuer in making term advances to UPP pursuant to the Unique Intercompany Loan Agreement (as defined below), and each such tranche under the Unique Intercompany Loan Agreement amortizes at the same rate as the related class of Unique Securitized Notes. UPP pays to the Unique Issuer amounts equal to all fees, costs and expenses incurred by the Unique Issuer in connection with the Unique Securitized Notes.
(3) As security for its obligations in respect of the Unique Intercompany Loan Agreement, UPP has granted first-ranking security interests in favor of the Unique Trustee over all of its assets and undertakings, including the Unique Estate and all rental income, income generated from the supply of beer and non-beer products to tenants, etc. As security for its obligations in respect of the Unique Securitized Notes, the Unique Issuer has granted security over, among other things, its right, title, interest and benefit in respect of the Unique Intercompany Loan Agreement and the other relevant transaction documentation.
(4) Under the Beer Supply Agreement (as defined below): (i) Ei, as the Supply Manager (as defined below), supplies products to UPP's tenants subject to a tie and (ii) the Supply Manager pays UPP a monthly gross procurement fee in respect of the amount of products delivered to the tenants.
(5) Under the Asset Management Agreement, Ei acts as the Asset Manager, managing and administrating the Unique Estate (the beneficial ownership of which is held by UPP) for a monthly fee. The asset management responsibilities of the Asset Manager include, among other things, the letting of pub properties to prospective tenants, organizing the making of repairs and the carrying out of maintenance to the pubs and the taking of enforcement action against tenants in arrears pursuant to their leases.
(6) The rents received under the leases of the Unique Estate, the gross procurement fee received from Ei as Supply Manager, the income derived from the supply to tenants of products (both subject to the tie and otherwise), the income from amusements with prizes machines and ancillary machine income and any other miscellaneous income from the Unique Estate are used, among other things, to service and repay the loans to the Unique Issuer under the Unique Intercompany Loan.
(7) Under the Cash Management Agreement (as defined below), Ei provides cash management functions for UPP (including in relation to repayment of the loans pursuant to the Unique Intercompany Loan Agreement and the collection of rents, product supply income and other income from the tenants) and the Unique Issuer.

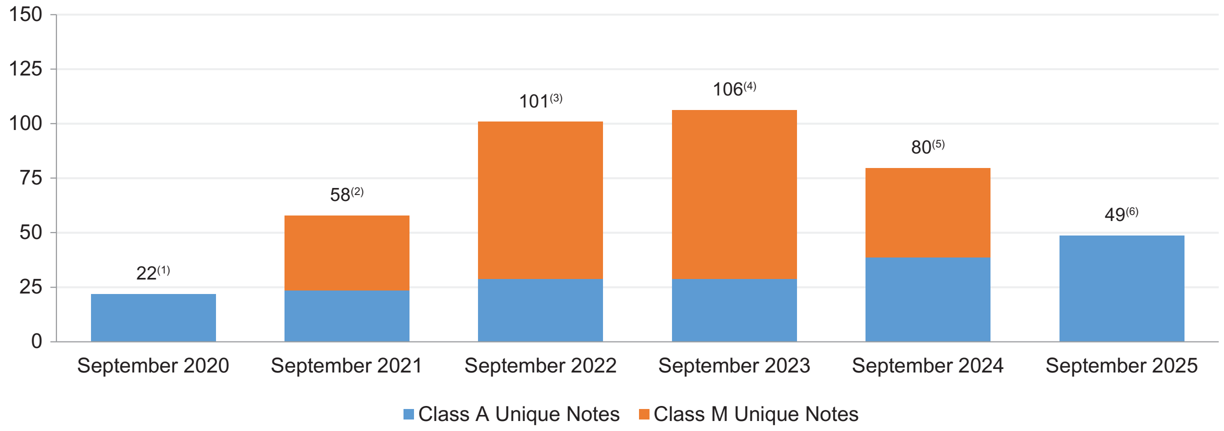
The net proceeds of each tranche of the Unique Securitized Notes were applied by the Unique Issuer in making term advances to UPP pursuant to an intercompany loan agreement (the "Unique Intercompany Loan Agreement"), the latest iteration of which is dated February 25, 2005 and as most recently amended on July 16, 2020. Each of the tranches advanced pursuant to the Unique Intercompany Loan Agreement relates to a class of the Unique Securitized Notes and such tranche amortizes at the same rate as the related class of Unique Securitized Notes. In addition, UPP pays to the Unique Issuer amounts equal to all fees, costs and expenses incurred by the Unique Issuer in connection with the Unique Securitized Notes.

The Unique Securitized Notes are subject to mandatory redemption in part on the interest payment dates falling:

- in the case of the Class A Unique Notes, from September 2013 to June 2027 (inclusive);
- in the case of the Class M Unique Notes, from June 2021 to March 2024 (inclusive); and
- in the case of the Class N Unique Notes, from September 2027 to March 2032 (inclusive).

Assuming that no pub disposals or prepayments or purchases and cancellations of Unique Securitized Notes occur, the Unique Issuer is expected to make the following repayments of principal in respect of Class A Unique Notes and Class M Unique Notes in aggregate on payment dates falling in the periods described below. No repayment of principal in respect of Class N Unique Notes is expected to be made during this period.

Unique Amortization Profile (in £ millions)



(1) From (but excluding) September 2019 to (and including) September 2020, £22 million in respect of the Class A Unique Notes (which includes £14 million amortizing for the three quarters ending September 2020, £3 million voluntarily prepaid in the quarter ended December 2019 and £5 million that was scheduled to amortize in the quarter ended December 2019), £nil in respect of the Class M Unique Notes;
(2) From (but excluding) September 2020 to (and including) September 2021, £24 million in respect of the Class A Unique Notes, £34 million in respect of the Class M Unique Notes;
(3) From (but excluding) September 2021 to (and including) September 2022, £29 million in respect of the Class A Unique Notes, £72 million in respect of the Class M Unique Notes;
(4) From (but excluding) September 2022 to (and including) September 2023, £29 million in respect of the Class A Unique Notes, £78 million in respect of the Class M Unique Notes;
(5) From (but excluding) September 2023 to (and including) September 2024, £39 million in respect of the Class A Unique Notes, £41 million in respect of the Class M Unique Notes; and
(6) From (but excluding) September 2024 to (and including) September 2025, £49 million in respect of the Class A Unique Notes, £nil in respect of the Class M Unique Notes and £nil in respect of the Class N Unique Notes.

Interest is payable in respect of the Unique Securitized Notes quarterly in arrear at a rate of 5.659% per annum in respect of the Class A Unique Notes, 7.395% per annum in respect of the Class M Unique Notes and 6.464% per annum in respect of the Class N Unique Notes.

Security

As security for, among other things, its obligations pursuant to the Unique Intercompany Loan Agreement, UPP has granted first-ranking security interests in favor of the trustee in respect of the Unique Securitized Notes (the “Unique Trustee”) over all of its assets and undertakings, including the Unique Estate and all rental income, income generated from the supply of beer and non-beer products to tenants, etc. As security for, among other things, its obligations in respect of the Unique Securitized Notes, the Unique Issuer has granted security over, among other things, its right, title, interest and benefit in respect of the Unique Intercompany Loan Agreement and the other relevant transaction documentation.

UPP’s Business

UPP is the owner of the Unique Estate. UPP receives rent from the tenants of the properties comprising the Unique Estate, gross procurement fees from Ei as supply manager (see “Supply Arrangements”) and other payments arising in respect of its ownership of the Unique Estate.

Under the terms of the leases of approximately 81.8% of the pubs comprising the Unique Estate as of March 28, 2020, the tenants who occupy such pubs are subject to contractual “tie” arrangements requiring those tenants to purchase from UPP (or its nominee) specified beers, ciders, flavored alcoholic beverages, wines, spirits and minerals (as set out in each tie). In addition, the ties prohibit such tenants from selling or exhibiting for sale any products subject to the tie that are not supplied by UPP (or its nominee). The other pubs comprising the Unique Estate are not subject to such contractual tie arrangements.

The rents received under the leases of the Unique Estate, the income derived from the supply to tenants of products (both subject to the tie and otherwise), the income from amusements with prizes machines and ancillary machine income and any other miscellaneous income from the Unique Estate are used, among other things, to service and repay the loans to the Unique Issuer under the Unique Intercompany Loan.

The Unique Intercompany Loan Agreement restricts the ability of UPP to engage in certain activities and contains provisions relating to, among other things, permitted acquisitions, permitted developments, permitted transactions, capital expenditure and permitted disposals, as more fully described in the Unique Intercompany Loan Agreement.

Supply Arrangements

Pursuant to a beer supply agreement (the "Beer Supply Agreement") dated February 25, 2005 between, among others, Ei (in such capacity, the "Supply Manager") and UPP, UPP agreed to nominate or procure the nomination of the Supply Manager as the supplier of products to tenants subject to a tie. The Supply Manager has agreed to use reasonable endeavors to supply products to tenants under the terms of the Beer Supply Agreement. In consideration of these nominations, the Supply Manager pays a monthly gross procurement fee to UPP in respect of the amount of products delivered to the tenant, lessee or manager (as the case may be) during the preceding period of either four or five weeks in each 52-week cycle.

The gross procurement fee is equal to the volume of products supplied by or on behalf of the Supply Manager in the relevant period, multiplied by the then applicable relevant gross procurement fee figure in respect of such product. The gross procurement fee figure for each relevant period for beer and cider includes an amount (the "Product Accrual") per unit accrued by UPP for each relevant period. The Product Accrual is equal to the relevant then applicable Product Accrual figure multiplied by the volume of the relevant product supply by or on behalf of the Supply Manager to tenants of the tied pubs. UPP uses the Product Accruals to make an annual payment to the Supply Manager. Not later than November 30 each year, UPP pays to the Supply Manager the lesser of (a) the total amount of Product Accruals paid by the Supply Manager to UPP in the preceding financial year and (b) the aggregate amount paid by the Supply Manager to tenants who receive volume related discounts in that financial year.

The gross procurement fee and Product Accrual figures may be varied in line with the retail price index annually. In addition, if the Supply Manager can show that it would make a loss if it supplied products at the revised prices, a lower gross procurement fee and Product Accrual can be agreed between UPP and the Supply Manager, with the consent of the Unique Trustee.

The Supply Manager purchases products at a price which represents a discount per relevant unit of product to the national wholesale list price per relevant unit of such product. Products supplied to tenants between the first and 15th of a month (both days inclusive) is typically due for payment on the first day of the following month. Products supplied between the 16th and the last day of a month (both inclusive) are typically due for payment on the 15th day of the following month. All such payments are made into collection accounts and held on trust for the Supply Manager.

Management of the Unique Estate

Pursuant to an asset management agreement dated February 25, 2005 (the "Asset Management Agreement"), as most recently amended on March 24, 2016, between, among others, Ei and UPP, Ei (in such capacity, the "Asset Manager") has agreed to act as property and estate manager for UPP to be responsible for management and administration of the Unique Estate in return for a monthly fee. The fee for a month comprises one twelfth of the relevant annual "Expense Amount" for each pub in the Unique Estate on the first day of the month plus estate expenses in respect of that month (and any estate expenses previously incurred and not previously reimbursed). These estate expenses include various amounts paid or incurred by the Asset Manager in respect of the Unique Estate that are not paid or reimbursed by a tenant of the relevant pubs, including rents or other sums payable under headleases, insurance premiums, payments under maintenance contracts and maintenance and repair costs. The Expense Amount was £5,910 per pub as of February 2005 and is adjusted annually on October 1 in line with the retail price index. On October 1, 2019, the Expense Amount per pub was revised to £9,120.

Additionally, if the Asset Manager believes that the fees payable to it during the next 12 months will result in the Asset Manager making a loss in respect of the asset management services it provides, it may notify UPP of the fact not later than two weeks prior to the loan payment date falling at the end of September in any year and it is entitled to provide UPP with a proposal for an alternative fee rate which would result in the Asset Manager making a gross profit in respect of the services it expects to provide. Any agreement between them that results in an increased management fee requires the consent of the Unique Trustee. If

UPP and the Asset Manager are unable to agree an alternative management fee, either of them may refer the matter to an expert. The Asset Manager has never exercised its rights described in this paragraph.

The asset management responsibilities of the Asset Manager include, among other things, the letting of pub properties to prospective tenants, organizing the making of repairs and the carrying out of maintenance to the pubs and the taking of enforcement action against tenants in arrears pursuant to their leases. In addition, in accordance with the Asset Management Agreement, leases granted on or after March 24, 2016 to the Asset Manager or any affiliate or employee of the Asset Manager (the "Asset Manager Affiliate"), which from Acquisition Completion Date includes Stonegate Group companies, need to comply with certain conditions specified in the Asset Management Agreement (including, in particular, with regard to certain minimum rent requirements).

Pursuant to a cash management agreement dated February 25, 2005 (the "Cash Management Agreement") between, among others, Ei and UPP, Ei (in such capacity, the "Cash Manager") has agreed to carry out certain cash management functions for UPP (including in relation to repayment of the loans pursuant to the Unique Intercompany Loan Agreement and the collection of rents, product supply income and other income from the tenants) and the Unique Issuer.

Unique Accounts

UPP holds various bank accounts which include an account (the "Reserve Account") from which withdrawals may only be made with the prior written consent of the Unique Trustee in limited circumstances, and a transaction account in which rents and beer and non-beer income payments are transferred after collection in certain collection accounts (the "Transaction Account").

Money held to the credit of the Transaction Account is, following payment of or provision for certain third party expenses (including amounts payable to the Unique Issuer and to the Asset Manager, Cash Manager and Supply Manager), required to be allocated to the Reserve Account until a debt service cover ratio test is met, namely that (a) the Reserve Fund (being the balance standing to the credit of the Reserve Account, excluding Product Accrual) is not less than the "Required Amount," being £65,000,000, or, if there are no Class A Unique Notes or Class M Unique Notes outstanding, the lower of £65,000,000 and the Target Amount, being an amount calculated by reference to the balance of the Reserve Account and reducing in accordance with repayments of principal in respect of the Class N tranche pursuant to the Unique Intercompany Loan Agreement) and (b) the debt service cover ratio requires that the ratio of Cashflow to Debt Service (the "DSCR") of UPP is at least 1.5:1 (the "DSCR Test").

Certain Financial Covenants

Pursuant to the Unique Intercompany Loan Agreement, UPP is required to conduct its operations and business subject to two financial covenants: a net worth covenant and a debt service cover ratio covenant.

The net worth covenant requires that Net Worth (as defined below) that is tested annually by reference to the unaudited management accounts of UPP not at any time be less than £300,000,000. For these purposes, "Net Worth" is:

- the sum of the carrying value of UPP's fixed and current assets minus the book value of its liabilities; any accumulated after tax earnings (minus any accumulated losses) minus accumulated dividends paid by UPP to UPI; any fully subordinated financial indebtedness of UPP; the amount of any value adjustments or other non-cash provisions referable to the purchases of the Unique Estate by UPP; any amount (on an after tax basis) attributable to the amortization or the writing off of costs associated with the purchase of the Unique Estate by UPP; less
- the amount of any sums required by accounting principles generally accepted in the UK to be provided for taxation payable by UPP in the accounts of UPP and not provided for in such accounts of UPP excluding, for the avoidance of doubt, any amounts relating to unprovided deferred taxation on the revaluation of fixed assets.

The debt service cover ratio requires that the DSCR tested quarterly on a rolling four quarter basis will not be less than 1.1:1. For these purposes:

- "Cashflow" is the unconsolidated earnings of UPP for the relevant period (a) before (or, if already taken into account, adding back in) certain items including provision on account of taxation, interest and other amounts incurred by UPP in respect of indebtedness, amortization of goodwill or other intangible assets and any deduction for depreciation, amortization or writing off of costs associated with the purchase of the Unique pub estate and fair value adjustments and other non-cash provisions and (b) after adjusting to exclude certain items including any losses or gains arising from a sale of any pub, certain items treated as extraordinary or non-operating exceptional income or charges, amounts attributable to the writing up or down of UPP assets as a result of a revaluation and, to the extent not already taken into account in calculating the net income of UPP, the sum of (i) £5,000 multiplied by the average number of pubs let on variable term agreement leases during the relevant period and (ii) 8,400 multiplied by the number of pubs let on 'TMA Leases' (as described in the operative documents governing the Unique Securitization) during the relevant period (although, at present there are no TMA Leases in place);

- "Debt Service" means, in respect of any relevant period, the aggregate of (a) the difference between the amount outstanding under the Unique Intercompany Loan Agreement at the beginning of the relevant period and the amount scheduled to be outstanding at the beginning of the following period and (b) all interest payable in respect of the period under the Unique Intercompany Loan Agreement after adjusting for any amounts receivable or payable as a result of the operation of any hedging agreements (i) due to be paid in respect of the period and (ii) unpaid at the beginning of the period in respect of previous periods.

As of March 28, 2020, being the last date in respect of which the ratios were tested, the DSCR was 1.78 and the Net Worth was £1,152 million. The Unique Intercompany Loan Agreement provides that for the purposes of calculating compliance with the DSCR covenant that if during the financial quarters of UPP ending in June 2020 and September 2020 (the "Relevant Quarters") any pub was subject to closure as a result of the COVID-19 restrictions implemented by the UK government, the earnings for such pub for each relevant accounting period (being two periods of four weeks and one period of five weeks in each financial quarter) falling within such Relevant Quarter (together with the earnings for the two accounting periods following the end of such closure) will be substituted with the earnings from the corresponding accounting periods in UPP's previous financial year.

Further Issuances

The Unique Issuer is permitted to issue further Unique Securitized Notes that are fungible with the existing Unique Securitized Notes in a minimum amount of £25,000,000, provided that, among other things:

- certain ratings requirements are met including that the issue would not lead to a downgrade in the then current rating of the Unique Securitized Notes, that the further Unique Securitized Notes are issued in such proportions of Class A Unique Notes, Class M Unique Notes and Class N Unique Notes as would maintain the then current rating of each class of Unique Securitized Notes and that such further Unique Securitized Notes are assigned ratings that are at least as high as the higher of the then current rating of the relevant series of Unique Securitized Notes or the rating of such Unique Securitized Notes on the original issue dates;
- it does not lead to a ratings downgrade of the Unique Securitized Notes;
- the weighted average life of the Unique Securitized Notes then in issue are not varied as a result; and
- the approval of the holders of the Class M Unique Notes is obtained.

The Unique Issuer may also issue one or more classes of notes to replace an existing class of Unique Securitized Notes (which would then be redeemed at their principal amount plus the applicable makewhole premium). The terms of such replacement notes may differ from the then outstanding Unique Securitized Notes. The issue of any such replacement notes is subject to equivalent requirements as those described above for further notes.

Any incurrence of additional indebtedness by the Parent or its restricted subsidiaries, which will include members of the Unique Group, will be subject to the covenants and other terms governing the Notes offered hereby. See "Description of the Notes."

Disposal Provisions

Pursuant to the Unique Intercompany Loan Agreement, UPP is generally not permitted to sell, transfer, lease or otherwise dispose of any of its assets.

However, the Unique Trustee is required to give its consent to the following pub disposals by UPP, provided that no event of default under the Unique Intercompany Loan Agreement is outstanding and in each case subject to the more detailed conditions and provisions set out in the Unique Intercompany Loan Agreement:

- during each annual period (from one March loan payment date to another), a disposal (the "Permitted Tied Pub Disposal") of pubs (which, for disposals on or after July 6, 2018, must be pubs
- that are subject to the tie) with an aggregate market value up to the lower of: (i) 5% of the book value of the estate for that annual period and (ii) an amount that, together with the market value of the pubs already disposed of in that annual period and the five previous annual periods, is equal to 15% of the book value of the estate for that period. Such limits may be increased if the rating agencies confirm that such increase would not result in the downgrading of the then present rating of the Unique Securitized Notes;
- a disposal of further pubs (whether or not such pubs are subject to the tie) where the proceeds are applied to repay a proportionate amount of the Unique Securitized Notes plus additional Unique Securitized Notes such that the ratings of the Unique Securitized Notes would be equal to or higher than when originally issued (and given that the ratings of the Unique Securitized Notes are lower than when they were originally issued, this disposal power is currently considered to be unavailable);
- from July 6, 2018, a disposal of pubs that are not subject to the tie ("Permitted Commercial Property Disposal") at an aggregate price that is not less than the sum of (a) for pubs that are disposed of to the Asset Manager (or any of its affiliate or employee), the aggregate book value of such pubs and (b) for pubs that are disposed of other than to the Asset Manager (or any of its affiliate or employee), 90% of the aggregate book value of such pubs; and
- a disposal of the entire Unique Estate provided that the sale proceeds are sufficient to repay all outstanding Unique Securitized Notes (including applicable redemption premium) and all amounts payable to creditors that rank in priority to or *pari passu* with holders of the Unique Securitized Notes.

Proceeds of a Permitted Tied Pub Disposal are paid into a disposals account of UPP and can then be used for (i) repayments and prepayments of debt under the Unique Intercompany Loan Agreement and therefore the Unique Securitized Notes, (ii) permitted developments (including capital expenditure or other arrangements for the development, enhancement or improvement of a pub) provided that the average expected gross yield of the pub on which the permitted development is carried out is equal to or greater than the historic gross yield of such pub and/or (iii) the acquisition of a pub business (subject to certain restrictions as set out in the Unique Intercompany Loan Agreement). If and to the extent that the disposal proceeds have not been so applied within 18 months of the proceeds being paid into the disposals account, the proceeds shall be used to prepay debt under the Unique Intercompany Loan Agreement and therefore the Unique Securitized Notes.

Proceeds of a Permitted Commercial Property Disposal (net of selling expenses including any tax liability) must be used upon, or as soon as reasonably practicable after, such disposal to prepay outstanding loans under and in accordance with the provisions of the Unique Intercompany Loan Agreement.

In relation to the permissions for disposals described above, there are certain restrictions which apply if the pubs are sold to members of the "AM Group," being the Asset Manager and any affiliates or employees of the Asset Manager. Namely, no pub the current or the immediately preceding tenant of which is (or was) a member of the AM Group may be disposed of to a member of the AM Group within the period of five years from the date of first occupation of such pub by such member of the AM Group. After such five-year period, such disposal is only permitted if the gross proceeds of such disposal are at least in the amount of an independent valuation obtained at a date not more than 90 days before the proposed disposal. These restrictions do not apply, however, to untied pubs sold pursuant to a Permitted Commercial Property Disposal. There is also a general obligation on UPP's management and directors at all times to conduct business with Ei Group entities on an arm's length basis and in UPP's best interests.

Dividends and Other Payments

The Unique Intercompany Loan Agreement contains restrictions on UPP paying dividends unless certain conditions are satisfied. In summary, such conditions include the following: (a) no default or event of default is outstanding; (b) there is at least £65,000,000 in the Reserve Account; (c) the DSCR is at least 1.5:1 (without taking into account any adjustment for a COVID-19 related closure as described in "Certain Financial Covenants" above) and (d) the payment is funded from Excess Cash. Excess Cash means the surplus, if any, remaining after the payment of all items required to be paid by UPP in accordance with the relevant priorities of payment. Excess Cash as of March 28, 2020 that will be brought forward into the next quarter was £1.8 million.

The Unique Intercompany Loan Agreement also contains restrictions on UPP acquiring a business. UPP is only able to make such an acquisition if, among certain other conditions, it is a permitted business, no default has occurred or is then continuing and the acquisition is wholly or partially financed out of (a) a loan under the Unique Intercompany Loan Agreement (in turn funded by an issuance of further Unique Securitized Notes (as described in "—Further Issuances" above); (b) Excess Cash (being amounts available to UPP on each interest payment date under the Unique Intercompany Loan Agreement having made all payments under the priority of payments thereunder); or (c) the disposal proceeds from the sale of pubs (subject to certain other conditions) (as to which please see "—Disposal Provisions" above). Additionally, the Unique Intercompany Loan Agreement contains restrictions on UPP entering into any activity requiring development or remedial capital expenditures, granting of permissions, consents, licenses or property interests or entry into other arrangements in respect of or for the purpose of the development, enhancement or improvement of any of its pubs or a permitted business. Such activities may be undertaken if they are wholly or partially financed out of (i) a loan under the Unique Intercompany Loan Agreement (in turn funded by an issuance of further Unique Securitized Notes (as described in "—Further Issuances" above); (ii) Excess Cash; or (iii) amounts standing to the credit of the Disposals Account received as disposal proceeds (subject to certain other conditions).

The Unique Intercompany Loan Agreement, also contains restrictions on UPP regarding incurrence of indebtedness and giving of guarantees. Carve outs include incurrence of indebtedness and guarantees of indebtedness (a) up to £3,000,000 under finance leases or hire purchase arrangements; and (b) any other form of further financial indebtedness provided that it is made on an unsecured and fully subordinated basis (and provided further that, by its terms, such further subordinated financial indebtedness may only be serviced out of Excess Cash). Under the Unique Intercompany Loan Agreement, UPP is not permitted to engage in activities outside of its normal course of business other than in respect of permitted transactions, such as (i) disposals of stock in trade by UPP in its ordinary course of trade; (ii) acquisitions and disposals of eligible investments; (iii) disposals and replacements of obsolete or redundant plant and equipment not required for the efficient operation of its business, on arm's length terms; (iv) any sale of an asset (other than a pub or other cash generating asset) on arm's length terms where the entire proceeds of such sale do not exceed £250,000; and (v) any other transaction consented to in advance in writing by the trustee.

Under the Unique Intercompany Loan Agreement, UPP is allowed to contribute certain amounts ahead of payment of debt service on each interest payment date under the Unique Intercompany Loan Agreement (being £26,650,608 as at September 30, 2004 (such amount to be increased (but not reduced) in each subsequent year) into a capital expenditure account during every twelve month period. In addition, UPP may, after payment of debt service on each interest payment date under the Unique Intercompany Loan Agreemen, if the DSCR on such interest payment date is at least 1.5:1, contribute an additional £750,000 to the capex account on such interest payment date, subject to a cap of £2,000,000 in any four consecutive quarters. The amount standing to the credit of the capex account as of March 28, 2020 was £nil.

Liquidity Facility Agreement

The Unique Issuer, the Royal Bank of Scotland plc (the "Liquidity Facility Provider") and the Unique Trustee are party to an amended and restated liquidity facility agreement (the "Liquidity Facility Agreement") dated February 25, 2005 pursuant to which the Liquidity Facility Provider made available to the Unique Issuer a renewable committed facility (the "Liquidity Facility") for a term of 364 days on a renewable basis. The Liquidity Facility Agreement is due to expire on June 30, 2021. The Unique Issuer will extend the facility or consider alternative arrangements at the appropriate time.

The Liquidity Facility Agreement provides for a mechanism by which the amount of the Liquidity Facility may be partially cancelled from time to time. A methodology has been agreed with the relevant rating agencies pursuant to which the required size of the Liquidity Facility has reduced from the original amount of £190,000,000 by reference to (a) the maximum amount of debt service payable in respect of the Class A Unique Notes, the Class M Unique Notes and the Class N Unique Notes in respect of the following 18-month period and taking into account (b) the Required Amount in respect of the Reserve Account. As of September 30, 2019, the amount of the Liquidity Facility was £152,000,000.

The Liquidity Facility is available to the Unique Issuer on each interest payment date in respect of the Unique Securitized Notes to meet certain of its payment obligations falling due on such date to the extent that the amount that it receives from UPP pursuant to the Unique Intercompany Loan Agreement and amounts standing to the credit of the Reserve Account are insufficient for those purposes.

The amount of the Liquidity Facility that can be applied towards payment of interest and principal in respect of the Class M Unique Notes and the Class N Unique Notes is limited pursuant to the terms of the Liquidity Facility Agreement.

On an interest payment date and following the taking of enforcement action within the Unique Securitization, the Unique Issuer's obligations to repay amounts due to the Liquidity Facility Provider pursuant to the Liquidity Facility Agreement rank ahead of its obligations to make payments in respect of the Unique Securitized Notes (subject to certain subordinated amounts due to the Liquidity Facility Provider that rank behind such payments).

DESCRIPTION OF THE NOTES

On July 13, 2020, the Issuer issued and the Guarantors guaranteed £500.0 million aggregate principal amount of 8.0% senior secured notes due 2025 (the "*Existing Fixed Rate Notes*") pursuant to the Indenture (as defined herein). In this offering, the Issuer will issue and the Guarantors will guarantee a further issuance under the Indenture of €300.0 million aggregate principal amount of floating rate senior secured notes due 2025 (the "*Floating Rate Notes*") and £950.0 million aggregate principal amount of 8.25% senior secured notes due 2025 (the "*New Fixed Rate Notes*" and, together with the Floating Rate Notes, the "*New Notes*" and, the New Notes together with the Existing Fixed Rate Notes, the "*Notes*"). The Existing Fixed Rate Notes and the New Fixed Rate Notes are collectively referred to herein as the "*Fixed Rate Notes*."

The New Notes will be issued by Stonegate Pub Company Financing 2019 plc (the "*Issuer*"), a public limited company which has been organized as a special purpose finance subsidiary under the laws of England and Wales to facilitate the offering of debt securities and which has no operations and no assets other than its rights under the on-loans of proceeds to Stonegate Pub Company Bidco Limited (the "*Company*") pursuant to the Proceeds Loan Agreements (as defined herein). The Issuer will be dependent on payments by the Company on the Proceeds Loan (as defined herein) in order to service the New Notes.

In this "*Description of the Notes*," the "*Parent*" refers only to Stonegate Pub Company Limited, the indirect parent of the Issuer, and any successor obligor to Stonegate Pub Company Limited on the Parent Guarantee (as defined herein), and not to any of its subsidiaries, including the Issuer; and the "*Issuer*" refers only to Stonegate Pub Company Financing 2019 plc, and any successor obligor to Stonegate Pub Company Financing 2019 plc on the Notes.

The Issuer will issue the New Notes under the indenture dated July 13, 2020 (the "*Indenture*") among the Issuer, the Parent, the Guarantors (as defined herein) and Deutsche Trustee Company Limited, as trustee (the "*Trustee*"). The New Notes will be issued in private transactions that are not subject to the registration requirements of the Securities Act (as defined herein). See "*Transfer Restrictions.*" The terms of the New Notes include those stated in the Indenture. The Indenture is not qualified under and does not incorporate provisions by reference to or is not otherwise subject to the Trust Indenture Act of 1939, as amended.

The Indenture, the Notes and the Note Guarantees (as defined herein) are subject to the terms of the Intercreditor Agreement (as defined herein) and any additional intercreditor agreements entered into in the future. The terms of the Intercreditor Agreement are important to understand the terms and ranking of the Liens on the Collateral securing the Notes and the Note Guarantees. See "*Description of Other Indebtedness—Intercreditor Agreement*" for a description of the material terms of the Intercreditor Agreement.

This "*Description of the Notes*" is intended to be an overview of the material provisions of the Indenture, the Notes, the Note Guarantees and the Proceeds Loan Agreements. Since this description of the terms of the Notes is only a summary, you should refer to the Indenture for complete descriptions of the obligations of the Issuer and the Guarantors and your rights.

Copies of the Indenture, the form of Notes and the Intercreditor Agreement are available as set forth under "*Where to find additional information.*"

The Indenture is unlimited in aggregate principal amount, but this issuance of the New Notes is limited to €300.0 million aggregate principal amount of the Floating Rate Notes and £950.0 million aggregate principal amount of the New Fixed Rate Notes. No additional Existing Fixed Rate Notes will be issued in this issuance. The New Fixed Rate Notes will be issued as Additional Notes (as defined under "*—Additional Notes*") under the Indenture subject to the procedures described therein; *provided* that we will only be permitted to issue Additional Notes in compliance with the covenants contained in the Indenture, including the covenant restricting the Incurrence of Indebtedness (as described below under "*—Certain Covenants—Limitation on Indebtedness*"). Except as otherwise specified with respect to the New Fixed Rate Notes, the New Fixed Rate Notes will have the same terms as the Existing Fixed Rate Notes and will constitute a single class of debt securities with the Existing Fixed Rate Notes under the Indenture, including with respect to waivers, amendments or other modifications of the Indenture (other than with respect to amendments, waivers or other modifications that will only affect the relevant series of Notes (see "*—Amendments and Waivers*")) and offers to purchase. However, the New Fixed Rate Notes will not form part of the same series of notes as the Existing Fixed Rate Notes. See "*—Additional Notes.*" Unless the context otherwise requires, in this "*Description of the Notes,*" references to the "*Notes*" include the Existing Fixed Rate Notes, the Floating Rate Notes, the New Fixed Rate Notes and further Additional Notes that are actually issued.

The New Fixed Rate Notes will bear a different rate of interest to the Existing Fixed Rate Notes and have new international securities identification numbers ("*ISINs*") and common code numbers, and will not be fungible with the Existing Fixed Rate Notes.

Summary Description of the Notes

The New Notes

- will be senior obligations of the Issuer and will rank equal in right of payment with any existing or future Indebtedness of the Issuer that is not expressly subordinated to the New Notes;
- will be secured by the Collateral described below along with obligations under the Revolving Facilities Agreement, the Senior Term Facilities Agreement, the Second Lien Facility Agreement, Hedging Obligations and any Operating Facility (as defined in the Intercreditor Agreement) (although any liabilities in respect of obligations under any Revolving Facilities Agreement, certain Hedging Obligations and any Operating Facility that are secured by the Collateral will receive priority over the Holders with respect to any proceeds received upon any enforcement action over the Collateral);
- will be senior in right of payment to any future Subordinated Indebtedness (as defined herein) of the Issuer;
- will be effectively senior in right of payment to any existing or future unsecured obligations of the Issuer to the extent of the value of the Collateral that is available to satisfy the obligations under the New Notes; and
- will be unconditionally guaranteed on a senior secured basis by the Guarantors.

Principal and Maturity

On date of the issuance of the New Notes (the "*New Notes Issue Date*"), the Issuer will issue €300.0 million in aggregate principal amount of the Floating Rate Notes as Initial Floating Rate Notes (as defined in the Indenture) and £950.0 million in aggregate principal amount of the New Fixed Rate Notes. The Floating Rate Notes will mature on July 31, 2025. The New Fixed Rate Notes will mature on July 31, 2025. The Floating Rate Notes will be issued in minimum denominations of €100,000 and in integral multiples of €1,000 in excess thereof. The New Fixed Rate Notes will be issued in minimum denominations of £100,000 and in integral multiples of £1,000 in excess thereof. The rights of holders of beneficial interests in the Notes to receive the payments on such Notes are subject to applicable procedures of Euroclear and/or Clearstream.

If the due date for any payment in respect of any Notes is not a Business Day, the Holder thereof will not be entitled to payment of the amount due until the next succeeding Business Day, and will not be entitled to any further interest or other payment as a result of any such delay.

Interest

Interest on the Floating Rate Notes

The Floating Rate Notes will bear interest at a rate per annum computed against the principal outstanding on the Floating Rate Notes (the "*Applicable Rate*"), reset quarterly, equal to EURIBOR plus 5.75%, as determined by an agent appointed by the Issuer to calculate EURIBOR for the purposes of the Indenture (the "*Calculation Agent*"), which shall initially be Deutsche Bank AG, London Branch. Interest on the Floating Rate Notes will be payable quarterly in arrears on February 15, May 15, August 15 and November 15 of each year, commencing on November 15, 2020. Therefore the Interest Period will be one or more days longer. The Issuer will pay interest to the holders of record on the Business Day immediately preceding the applicable interest payment date, as the case may be. Interest on the Floating Rate Notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from the date of original issuance. Interest will be computed on the basis of a 365-day year and the actual number of days elapsed.

The Calculation Agent will, as soon as practicable after 11:00 a.m., London time, on each Determination Date, determine the Applicable Rate, and calculate the aggregate amount of interest payable on the Floating Rate Notes in respect of the following Interest Period (the "*Interest Amount*"). The Interest Amount will be calculated by applying the Applicable Rate to the principal amount of the Floating Rate Notes outstanding at the commencement of the Interest Period, multiplying each such amount by the actual number of days in the Interest Period concerned divided by 365. The Applicable Rate on the Floating Rate Notes will in no event be higher than the maximum rate permitted by applicable law.

All percentages resulting from any of the above calculations will be rounded, if necessary, to the nearest one hundred thousandth of a percentage point, with five one-millionths of a percentage point being rounded upwards (*e.g.*, 4.876545% (or 0.04876545) being rounded to 4.87655% (or 0.0487655)). All euro amounts used in or resulting from such calculations will be rounded to the nearest euro cent (with one-half euro cent being rounded upwards). The determination of the Applicable Rate and the Interest Amount by the Calculation Agent shall, in the absence of willful default, bad faith or manifest error, be binding on all parties. The Trustee and the Paying Agent shall not be responsible for, nor incur any liability in connection with, any loss resulting from any calculation made, or intended to be made, by the Calculation Agent.

The Calculation Agent will, upon the written request of the holder of any Floating Rate Notes, provide the interest rate then in effect with respect to the Floating Rate Notes. The rights of holders of beneficial interests in the Floating Rate Notes to receive the payments of interest on the Floating Rate Notes will be subject to applicable procedures of Euroclear and Clearstream, as applicable.

Set forth below is a summary of certain of the defined terms used in the Indenture relating to the calculation of interest on the Floating Rate Notes:

"*Determination Date,*" with respect to an Interest Period, will be the day that is two TARGET Settlement Days preceding the first day of such Interest Period.

"*EURIBOR*" with respect to an Interest Period, will be the rate (expressed as a percentage per annum) for deposits in euro for a three-month period beginning on the day that is two TARGET Settlement Days after the Determination Date that appears on Reuters Page 248 as of 11:00 a.m., Brussels time, on the Determination Date; provided, however, that EURIBOR shall never be less than 0%. If Reuters Page 248 does not include such a rate or is unavailable on a Determination Date, the Issuer will request the principal London office of each of four major banks in the Eurozone interbank market, as selected by the Issuer, to provide such bank's offered quotation (expressed as a percentage per annum) as of approximately 11:00 a.m., Brussels time, on such Determination Date, to prime banks in the Eurozone interbank market for deposits in a Representative Amount in euro for a three-month period beginning on the day that is two TARGET Settlement Days after the Determination Date. If at least two such offered quotations are so provided, the rate for the Interest Period will be the arithmetic mean of such quotations. If fewer than two such quotations are so provided, the Issuer will request each of three major banks in London, as selected by the Issuer, to provide such bank's rate (expressed as a percentage per annum), as of approximately 11:00 a.m., London time, on such Determination Date, for loans in a Representative Amount in euro to leading European banks for a three-month period beginning on the day that is two TARGET Settlement Days after the Determination Date. If at least two such rates are so provided, the rate for the Interest Period will be the arithmetic mean of such rates. If fewer than two such rates are so provided then the rate for the Interest Period will be the rate in effect with respect to the immediately preceding Interest Period.

Notwithstanding the foregoing provisions, if the Issuer determines at any time prior to any Interest Calculation Date, that a Benchmark Event has occurred and/or is continuing, the Issuer, acting in good faith and in a commercially reasonable manner and in accordance with the Benchmark Regulation, shall determine a substitute, alternative or successor rate for purposes of determining the interest rate on each Interest Calculation Date occurring after such time that is substantially comparable to EURIBOR or that has been recommended or selected by the monetary authority or similar authority (or working group thereof) in the jurisdiction of the applicable currency or by a widely recognized industry association or body or that is expected to develop as an industry accepted rate for debt market instruments such as or comparable to the Floating Rate Notes; provided that, the Issuer may, in its sole and good faith judgment, consult with a Rate Determination Agent in making any such determination.

If the Issuer has determined a substitute, alternative or successor rate in accordance with the foregoing paragraph (such rate, the "Replacement Reference Rate") for purposes of determining the interest rate on the relevant Interest Calculation Date falling after such determination:

(i) the Issuer will also determine (a) the Adjustment Spread and (b) changes (if any) (the "Benchmark Adjustments") to the business day convention, the definition of business day, the interest calculation date, the day count fraction and any method for calculating the Replacement Reference Rate and any Adjustment Spread;

(ii) without any requirement for the consent or approval of Holders of the Floating Rate Notes, references to EURIBOR under the Indenture and this Note will be deemed (provided that the Benchmark Adjustments do not, without the prior agreement of the Trustee, the Paying Agent or the Calculation Agent, as applicable, have the effect of increasing the obligations or duties, or decreasing the rights or protections, of the Trustee, Paying Agent or the Calculation Agent under the Indenture and/or the Floating Rate Notes) to be references to the relevant Replacement Reference Rate, including any Benchmark Adjustments; and

(iii) the Issuer will give notice as soon as reasonably practicable to the Holders of the Floating Rate Notes (in accordance with Section 13.02 of the Indenture) specifying the Replacement Reference Rate (including any Benchmark Adjustments).

None of the Trustee, the Paying Agent or the Calculation Agent shall be responsible or liable for any action or inaction of the Issuer or (if applicable) the Rate Determination Agent or its (or their) determination of the Replacement Reference Rate, any Benchmark Adjustments or other related changes.

The determination of the Replacement Reference Rate, any Benchmark Adjustments and the other matters referred to above by the Issuer and the Rate Determination Agent (as applicable) will be final and binding on the Issuer, the Trustee, the Paying Agent, the Calculation Agent and the Holders of the Floating Rate Notes. The Trustee, Paying Agent and Calculation Agent shall not be required to participate in the determination or selection of Replacement Reference Rate, any Adjustment Spread or Benchmark Adjustments and shall not be required to investigate or verify the adequacy, accuracy or sufficiency of such, nor shall the Trustee, Paying Agent and Calculation be responsible for determining what is customary or prevailing in the market at such time.

If the Issuer is unable to or otherwise fails to determine the Replacement Reference Rate, Adjustment Spread (if any) or Benchmark Adjustments (if any), by the date ten Business Days prior to the relevant Interest Calculation Date or if the Calculation Agent is unable (based on the information provided by the Issuer with respect to such Replacement Reference Rate, Adjustment Spread (if any) or Benchmark Adjustments (if any) and, if necessary, after consultation with the Issuer) to calculate, or calculate definitely, the interest rate applicable to the Interest Period commencing immediately following such Interest Calculation Date, then EURIBOR in respect of such Interest Period will be the EURIBOR in effect with respect to the immediately preceding Interest Period.

No later than the date on which the Holders of the Floating Rate Notes are notified by the Issuer as provided under (iii) above, the Issuer shall deliver to each of the Trustee, the Calculation Agent and the Paying Agent an Officer's Certificate (on which each of the Trustee, the Calculation Agent and the Paying Agent shall be entitled to rely without further enquiry or liability):

(i) confirming (I) that a Benchmark Event has occurred and the date on which the Issuer determined that a Benchmark Event had occurred; (II) if applicable, that the Rate Determination Agent meets the requirements under the Indenture; (III) the Replacement Reference Rate and any Adjustment Spread (along with an explanation in reasonable detail as to the methodologies underlying the determination of the Replacement Reference Rate, any Adjustment Spread and any Benchmark Adjustments); and/or (IV) where applicable, the specific terms of any Benchmark Adjustments, in each case, as determined in accordance with the provisions of this paragraph (1); and

(ii) certifying that the Benchmark Adjustments, to the best of its knowledge and belief (I) are necessary to ensure the proper operation of such Replacement Reference Rate and/or Adjustment Spread; and (II) have been drafted solely to such effect.

The sum of the Replacement Reference Rate and the Adjustment Spread shall in no event be less than 0.0%.

For the purposes of this paragraph, the following terms are defined as follows:

"*Adjustment Spread*" means either a spread (which may be positive or negative) or the formula or methodology for calculating a spread, in either case, which the Issuer, acting in good faith, determines is required to be applied to the Replacement Reference Rate to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as the case may be) to Holders of the Floating Rate Notes as a result of the replacement of EURIBOR with the Replacement Reference Rate and is the spread, formula or methodology which:

(a) is formally recommended in relation to the replacement of EURIBOR with the Replacement Reference Rate by any competent authority; or (if no such recommendation has been made)

(b) the Issuer determines, acting in good faith, is recognized or acknowledged as being the industry standard for debt market instruments such as or comparable to the Floating Rate Notes or for over-the-counter derivative transactions which reference EURIBOR, where such rate has been replaced by the Replacement Reference Rate; or (if the Issuer determines that no such industry accepted standard is recognized or acknowledged)

(c) the Issuer, in its discretion, acting in good faith, determines to be appropriate.

"*Benchmark Event*" means:

(a) a material disruption to EURIBOR;

(b) EURIBOR ceasing to be published for a period of at least 5 Business Days or EURIBOR ceasing to exist;

(c) the issuance of a public statement by the administrator of EURIBOR that it will, by a specified date within the following six months, cease publishing EURIBOR permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of EURIBOR);

(d) the issuance of a public statement by the supervisor of the administrator of EURIBOR that EURIBOR has been or will, by a specified date within the following six months, be permanently or indefinitely discontinued;

(e) the issuance of a public statement by the supervisor of the administrator of EURIBOR that means EURIBOR will be prohibited from being used or that its use will be subject to restrictions or adverse consequences, in each case within the following six months;

(f) the occurrence of a change in the customary market practice in the international capital markets applicable generally to euro-denominated floating rate notes in the European market (determined according to factors including, but not limited to, public statements, opinions and publications of industry bodies and organizations) to refer to a base rate other than EURIBOR, despite the continued existence of EURIBOR; or

(g) it has become unlawful for the Paying Agent, the Calculation Agent, any third party agent or the Issuer to calculate any payments due to be made to any Holder of the Notes using EURIBOR.

"Benchmark Regulation" means Regulation (EU) 2016/1011 of the European Parliament and of the Council of June 8, 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014.

"*Eurozone*" means the region comprised of member states of the European Union that at such time use the euro as their official currency.

"*Interest Calculation Date*" means the day that is two TARGET Settlement Days preceding the first day of such Interest Period in respect of the relevant Interest Period.

"*Interest Period*" means the period commencing on and including an interest payment date and ending on but excluding the next succeeding interest payment date, with the exception that the first Interest Period shall commence on and include the New Notes Issue Date and end on and exclude November 15, 2020.

"*Rate Determination Agent*" means an independent financial institution of international standing or an independent financial adviser of recognized standing (that is not an Affiliate of the Issuer) as appointed by the Issuer at the expense of the Issuer.

"*Representative Amount*" means the greater of (a) €1.0 million and (b) an amount that is representative for a single transaction in the relevant market at the relevant time.

"*Reuters Page 248*" means the display page so designated by Reuters (or such other page as may replace that page on that service, or, if no such page is available, such other service as may be nominated as the information vendor).

"*TARGET Settlement Day*" means any day on which the Trans European Automated Real Time Gross Settlement Express Transfer (TARGET2) System is open for the settlement of payments in euro.

Interest on the New Fixed Rate Notes

Interest on the New Fixed Rate Notes will accrue at the rate of 8.25% per annum computed against the principal outstanding on the New Fixed Rate Notes. Interest on the New Fixed Rate Notes will be payable in cash, semi-annually in arrears on January 15 and July 15 of each year, commencing on January 15, 2021, to holders of record on the immediately preceding Business Day. Interest on the New Fixed Rate Notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from the date of original issuance. Interest on the Fixed Rate Notes will be computed on the basis of a 360-day year comprised of twelve 30-day months. Each interest period shall end on (but not include) the relevant interest payment date.

General

If the interest payment date in respect of any Notes is not a Business Day, the Holder thereof will not be entitled to payment of the amount due until the next succeeding Business Day, and will not be entitled to any further interest or other payment as a result of any such delay.

Additional Notes

From time to time, subject to the Parent's compliance with the covenant described under the heading "*—Certain Covenants—Limitation on Indebtedness,*" the Issuer is permitted to issue additional Notes, which shall have terms substantially identical to the Notes except in respect of any of the following terms which shall be set forth in an Officer's Certificate supplied to the Trustee and the Paying Agent ("*Additional Notes,*" consisting of "*Additional Floating Rate Notes*" or "*Additional Fixed Rate Notes,*" as the case may be):

(1) the title of such Additional Notes;

(2) the aggregate principal amount of such Additional Notes;

(3) the date or dates on which such Additional Notes will be issued;

(4) the rate or rates (which may be fixed or floating) at which such Additional Notes shall bear interest and, if applicable, the interest rate basis, formula or other method of determining such interest rate or rates, the date or dates from which such interest shall accrue, the interest payment dates on which such interest shall be payable or the method by which such dates will be determined, the record dates for the determination of holders thereof to whom such interest is payable and the basis upon which such interest will be calculated;

(5) the currency or currencies in which such Additional Notes shall be denominated and the currency in which cash or government obligations in connection with such series of Additional Notes may be payable;

(6) the date or dates and price or prices at which, the period or periods within which, and the terms and conditions upon which, such Additional Notes may be redeemed, in whole or in part;

(7) if other than denominations of £100,000 and in integral multiples of £1,000 in excess thereof, the denominations in which such Additional Notes shall be issued and redeemed;

(8) the ISIN, Common Code, CUSIP or other securities identification numbers with respect to such Additional Notes; and

(9) the date or dates on which such Additional Notes shall mature.

Unless the context otherwise requires, for all purposes of the Indenture and this "*Description of the Notes,*" references to (i) "*Notes*" shall be deemed to include references to Floating Rate Notes and Fixed Rate Notes and shall be deemed to include the Notes initially issued on the Issue Date as well as any Additional Notes, (ii) "*Additional Notes*" shall be deemed to include references to Additional Floating Rate Notes and Additional Fixed Rate Notes, (iii) "*Floating Rate Notes*" shall be deemed to include references to Floating Rate Notes initially issued under the Indenture as well as any Additional Floating Rate Notes, and (iv) "*Fixed Rate Notes*" shall be deemed to include references to the Existing Fixed Rate Notes initially issued on the Issue Date as well as any Additional Fixed Rate Notes. Additional Notes shall be treated, along with all other Notes, as a single class for the purposes of the Indenture with respect to waivers, amendments and all other matters which are not specifically distinguished for such series. For all purposes other than U.S. federal income tax purposes, Additional Notes shall be deemed to form one series with any Notes previously issued if they have terms substantially identical in all material respects to such other Notes. In the event that any Additional Notes sold pursuant to Rule 144A are not fungible with any Notes previously issued for U.S. federal income tax purposes, such non-fungible Additional Notes shall be issued with a separate ISIN, Common Code, CUSIP or other securities identification number, as applicable, so that they are distinguishable from such previously issued Notes. Additional Notes sold pursuant to Regulation S from time to time may be issued with the same ISIN, Common Code, CUSIP or other securities identification number as Notes belonging to the same series previously issued without being fungible with such series of initial Notes for U.S. federal income tax purposes. **If you are a U.S. holder (as defined in "*Tax Considerations—Certain United States Federal Income Tax Consequences*") considering the purchase of Notes sold pursuant to Regulation S, you should consult your tax advisors concerning the particular U.S. federal income tax consequences to you of the purchase, ownership and disposition of such Notes, including with respect to the potential issuance of Additional Notes that are not fungible with the applicable series of initial Notes for U.S. federal income tax purposes, but which nevertheless are not capable of being separately identified.**

Methods of Receiving Payments on the Notes

Principal, premium, if any, interest and Additional Amounts (as defined under "*—Additional Amounts*"), if any, on the Global Notes (as defined under "*—Transfer and Exchange*") will be payable at the specified office or agency of one or more Paying Agents (as defined under "*—Paying Agent, Registrar and Transfer Agent for the Notes*"); *provided* that all such payments with respect to Notes represented by one or more Global Notes registered in the name of or held by a nominee of Euroclear or Clearstream, as applicable, will be made by wire transfer of immediately available funds to the account specified by the Holder or Holders thereof.

Principal, premium, if any, interest and Additional Amounts, if any, on any certificated securities ("*Definitive Registered Notes*") will be payable at the specified office or agency of one or more Paying Agents maintained for such purposes. In addition, interest on the Definitive Registered Notes may be paid by wire transfer to the Person entitled thereto as shown on the register for the Definitive Registered Notes. See "*—Paying Agent, Registrar and Transfer Agent for the Notes.*"

Paying Agent, Registrar and Transfer Agent for the Notes

The Issuer will maintain one or more paying agents (each, a "*Paying Agent*") for the Notes for so long as the Notes are held in registered form. The initial Paying Agent for the Notes will be Deutsche Bank AG, London Branch.

The Issuer will also maintain (i) one or more registrars (each, a "*Registrar*") and (ii) a transfer agent (the "*Transfer Agent*"). The initial Registrar and Transfer Agent will be Deutsche Bank Luxembourg S.A. The Registrar will maintain a register reflecting ownership of Definitive Registered Notes outstanding from time to time, if any, and the Paying Agent and the Transfer Agent (as applicable) will make payments on and facilitate transfers of Definitive Registered Notes on behalf of the Issuer. The Transfer Agent shall perform the functions of a transfer agent.

The Issuer may change any Paying Agent, Calculation Agent, Registrar or Transfer Agent for the Notes without prior notice to the Holders. However, for so long as the Notes are listed on the Official List of The International Stock Exchange (the "*Exchange*"), and if and to the extent that the rules of the Exchange so require, the Issuer will notify the Exchange of any change of Paying Agent, Registrar or Transfer Agent. The Issuer or any of its Subsidiaries may act as Paying Agent or Registrar in respect of the Notes.

Transfer and Exchange

The New Notes will be issued in the form of one or more registered notes in global form without interest coupons, as follows:

- Each series of the New Notes sold within the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act will initially be represented by one or more global notes in registered form without interest coupons attached (the "*144A Global Notes*").
- The 144A Global Notes will, on the New Notes Issue Date, be deposited with the common depositary and registered in the name of the nominee of the common depositary for the accounts of Euroclear and Clearstream.
- Each series of the New Notes sold to persons who are not U.S. persons and are outside the United States in offshore transactions pursuant to Regulation S under the Securities Act will initially be represented by one or more global notes in registered form without interest coupons attached (the "*Regulation S Global Notes*" and, together with the 144A Global Notes, the "*Global Notes*").
- The Regulation S Global Notes will, on the New Notes Issue Date, be deposited with the common depositary and registered in the name of the nominee of the common depositary for the accounts of Euroclear and Clearstream.

Ownership of interests in the Global Notes ("*Book-Entry Interests*") will be limited to Persons that have accounts with Euroclear or Clearstream or Persons that may hold interests through such participants. Ownership of interests in the Book-Entry Interests and transfers thereof will be subject to the restrictions on transfer and certification requirements summarized below and described more fully under "*Transfer Restrictions.*" In addition, transfers of Book-Entry Interests between participants in Euroclear or participants in Clearstream will be effected by Euroclear or Clearstream, as applicable, pursuant to customary procedures and subject to the applicable rules and procedures established by Euroclear or Clearstream, as applicable, and their respective participants.

Book-Entry Interests in the 144A Global Notes may be transferred to a Person who takes delivery in the form of Book-Entry Interests in the Regulation S Global Notes only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Regulation S under the Securities Act.

The New Fixed Rate Notes offered hereby will have new ISINs and common codes, and will not be fungible with the Existing Fixed Rate Notes.

Prior to 40 days after the date of initial issuance of the Notes, ownership of Book-Entry Interests in Regulation S Global Notes will be limited to Persons that have accounts with Euroclear or Clearstream or Persons who hold interests through Euroclear or Clearstream, and any sale or transfer of such interest to U.S. persons shall not be permitted during such period unless such resale or transfer is made pursuant to Rule 144A under the Securities Act. Subject to the foregoing, Regulation S Book-Entry Interests may be transferred to a Person who takes delivery in the form of 144A Book-Entry Interests only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made to a Person who the transferor reasonably believes is a "*qualified institutional buyer*" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under "*Transfer Restrictions*" and in accordance with any applicable securities law of any other jurisdiction.

Any Book-Entry Interest that is transferred as described in the immediately preceding paragraphs will, upon transfer, cease to be a Book- Entry Interest in the Global Note from which it was transferred and will become a Book-Entry Interest in the Global Note to which it was transferred. Accordingly, from and after such transfer, it will become subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in the Global Note to which it was transferred.

If Definitive Registered Notes are issued, they will be issued only in minimum denominations of £100,000 or €100,000 aggregate principal amount and integral multiples of £1,000 or €1,000 in excess thereof, as the case may be, upon receipt by the Registrar of instructions relating thereto and any certificates, opinions and other documentation required by the Indenture. It is expected that such instructions will be based upon directions received by Euroclear or Clearstream, as applicable, from the participant that owns the relevant Book-Entry Interests. Definitive Registered Notes issued in exchange for a Book-Entry Interest will, except as set forth in the Indenture or as otherwise determined by the Board of Directors or an Officer of the Parent or the Issuer to be in compliance with applicable law, be subject to, and will have a legend with respect to, the restrictions on transfer summarized below and described more fully under "*Transfer Restrictions.*"

Subject to the restrictions on transfer referred to above, Notes issued as Definitive Registered Notes may be transferred or exchanged in whole or in part, in minimum denominations of £100,000 or €100,000 in aggregate principal amount and integral multiples of £1,000 or €1,000 in excess thereof, as the case may be. In connection with any such transfer or exchange, the Indenture requires the transferring or exchanging Holder to, among other things, furnish appropriate endorsements and transfer documents, to furnish information regarding the account of the transferee at Euroclear or Clearstream, as applicable, to furnish certain certificates and opinions, and to pay any Taxes in connection with such transfer or exchange. Any such transfer or exchange will be made without charge to the Holder, other than any Taxes payable in connection with such transfer.

Notwithstanding the foregoing, the Issuer is not required to register the transfer or exchange of any Definitive Registered Notes:

(1) for a period of 15 days prior to any date fixed for the redemption of such Notes;

(2) for a period of 15 days immediately prior to the date fixed for selection of such Notes to be redeemed in part;

(3) for a period of 15 days prior to the record date with respect to any interest payment date applicable to such Notes;

(4) which the Holder has tendered (and not withdrawn) for repurchase in connection with a Change of Control Offer (as defined under "*—Change of Control*") or an Asset Disposition Offer (as defined under "*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*"); or

(5) to register the transfer of or to exchange a Note between a record date and the next succeeding interest payment date.

The Issuer, the Trustee, the Paying Agent, the Registrar and the Transfer Agent will be entitled to treat the Holder as the owner of it for all purposes.

Restricted Subsidiaries and Unrestricted Subsidiaries

All the Parent's Subsidiaries are Restricted Subsidiaries. In the circumstances described below under the definition of "*Unrestricted Subsidiary,*" the Parent will be permitted to designate Restricted Subsidiaries as Unrestricted Subsidiaries. Unrestricted Subsidiaries will not be subject to any of the restrictive covenants contained in the Indenture.

Note Guarantees

The obligations of the Issuer pursuant to the Existing Fixed Rate Notes are, and in the case of the New Notes will be, unconditionally guaranteed, jointly and severally, by the Parent and by each existing material wholly owned Restricted Subsidiary of the Parent, subject to certain exceptions. Each Restricted Subsidiary that provides a guarantee of the Notes (a "*Subsidiary Note Guarantee*") is referred to herein as a "*Subsidiary Guarantor,*" and together with the Parent as the "*Guarantors.*" The Subsidiary Guarantors consist of: (i) Stonegate Pub Company Bidco Holdings Limited; (ii) Stonegate Pub Company Bidco Limited; (iii) Stonegate Pub Company Financing plc; (iv) Plato Company 3 Limited; (v) Town And City Pub Group Limited; (vi) Barley Pub Company Limited; (vii) Hops Pub Company Limited; (viii) Plato Restaurant Holdings Limited; (ix) Bay Restaurant Holdings Limited; (x) Bay Restaurant Group Limited; (xi) Slug and Lettuce Company Limited; (xii) Hull Propco Limited; (xiii) Falcon Propco 1 Limited; (xiv) Intertain Limited; (xv) Intertain (Bars) Limited; (xvi) Intertain (Bars) II Limited, (xvii) Intertain (Bars) III Limited; (xviii) Intertain (Bars) IV Limited; (xix) Be At One Holdings Limited; (xx) Be At One Limited; (xxi) the Target; (xxii) Enterprise Managed Investments Limited and (xxiii) The Craft Union Pub Company Limited. The Parent Guarantor and the Subsidiary Guarantors include each entity that has guaranteed the Revolving Facilities Agreement (in addition to the Issuer) and the Existing Fixed Rate Notes. Consistent with the Agreed Security Principles, none of the members of the Unique Group will provide a Subsidiary Note Guarantee.

In addition, after the Issue Date, in accordance with the covenant described under "*Certain Covenants—Additional Note Guarantees and Collateral*," under certain circumstances the Parent will cause a Restricted Subsidiary that is not a Guarantor to become a Guarantor. The new Guarantor will also, subject to the Agreed Security Principles, be required to pledge assets in favor of the Subsidiary Note Guarantee as described under "*—Security.*"

The Agreed Security Principles apply to the granting of guarantees and security in favor of obligations under the Revolving Facilities Agreement, the Senior Term Facilities Agreement, the Second Lien Facility Agreement and the Notes. The Agreed Security Principles include restrictions on the granting of guarantees where, among other things, such grant would be restricted by general statutory limitations, financial assistance, corporate benefit, fraudulent preference, "*thin capitalization*" rules, retention of title claims and similar matters.

Each Note Guarantee is limited to the maximum amount that would not render the Guarantor's obligations subject to avoidance under applicable fraudulent conveyance provisions of the United States Bankruptcy Code or any comparable provision of foreign or state law, or as otherwise required under the Agreed Security Principles to comply with corporate benefit, financial assistance and other laws. By virtue of this limitation, a Guarantor's obligation under its Note Guarantee could be significantly less than amounts payable with respect to the Notes, or a Guarantor may have effectively no obligation under its Note Guarantee. See "*Risk Factors—Risks Related to Our Structure—Each Note Guarantee is subject to certain limitations on enforcement and may be limited by applicable laws or subject to certain defenses that may limit its validity and enforceability.*"

The Note Guarantee provided by the Parent (the "*Parent Guarantee*" and together with the Subsidiary Note Guarantees, the "*Note Guarantees*") and the Subsidiary Note Guarantee of a Subsidiary Guarantor will terminate upon:

(1) in the case of a Subsidiary Note Guarantee only, a sale or other disposition (including by way of consolidation or merger) of Capital Stock of the relevant Guarantor or of a Holding Entity thereof, such that such Guarantor ceases to be a Restricted Subsidiary, or the sale or disposition of all or substantially all the assets of the relevant Guarantor (other than to the Parent or a Restricted Subsidiary), in each case in a transaction otherwise permitted by the Indenture;

(2) in the case of a Subsidiary Note Guarantee only, the designation in accordance with the Indenture of the relevant Guarantor as an Unrestricted Subsidiary;

(3) defeasance or discharge of the Notes, as provided in "*—Defeasance*" and "*—Satisfaction and Discharge;*"

(4) in the case of a Subsidiary Note Guarantee only (other than a Subsidiary Note Guarantee issued on the Issue Date), to the extent that the relevant Guarantor becomes a Guarantor solely due to the operation of the first paragraph of the covenant described under "*Certain Covenants—Additional Note Guarantees and Collateral*," upon the release of the relevant guarantee or discharge of Indebtedness referred to in such paragraph;

(5) in the case of any Note Guarantee given by any parent of the IPO Pushdown Entity, pursuant to the provisions described below under "*—IPO Pushdown;*"

(6) upon full payment of all obligations of the Issuer and the Guarantors under the Indenture and the Notes; or

(7) in connection with certain enforcement actions taken by the creditors under certain of our secured Indebtedness as provided under the Intercreditor Agreement.

Notwithstanding anything to the contrary in the Indenture or in the Intecreditor Agreement, the Note Guarantee of Stonegate Pub Company Financing plc in respect of the New Notes shall only be released and discharged (a) upon full payment or upon the satisfaction and discharge of the New Notes or (b) by defeasance or discharge of the New Notes, as provided in the Indenture.

Claims of creditors of non-guarantor Subsidiaries, including trade creditors, secured creditors and creditors holding debt and guarantees issued by those Subsidiaries, and claims of preferred and minority stockholders (if any) of those Subsidiaries will have priority with respect to the assets and earnings of those Subsidiaries over the claims of creditors of the Parent, including Holders. The Notes and each Note Guarantee therefore will be effectively subordinated to creditors (including trade creditors) and preferred and minority stockholders (if any) of any current and future Subsidiaries of the Parent that do not become Guarantors.

Security

The Collateral

Subject to the operation of the Agreed Security Principles, the applicable Transaction Security Documents and the grant of further Permitted Collateral Liens, the Existing Fixed Rate Notes are, and the New Notes will be, secured by fixed and floating security over substantially all of the assets of the Issuer and the Guarantors granted in favor of the Security Agent for the benefit of the secured parties (which includes the Trustee on behalf of the Holders), including:

(a) first legal mortgages over freehold property in England and Wales vested in the Issuer and the Guarantors and, in the case of any other real property, first fixed equitable security but excluding any leasehold property that has 25 years or less to run or has a rack-rent payable in respect thereof. Given the large volume of individual real property owned and leased by the Guarantors, it is not practicable to register such security at the land registry;

(b) security over all shares in the Issuer and the Guarantors; *provided* that the security granted by Midco (as defined herein) in the shares of the Parent will be non-recourse to Midco other than in relation to the charged shares;

(c) security over certain bank accounts in England and Wales of the Issuer and the Guarantors; and

(d) the assignment of rights of the Issuer and the Guarantors under certain insurance policies and monetary claims,

(collectively, the "*Collateral*").

Notwithstanding the foregoing, certain assets may not be secured or such security may not be perfected in accordance with the Agreed Security Principles, including:

- if the cost of providing security is not proportionate to the benefit accruing to the Holders and the other secured parties;
- if providing such security requires consent of a third party and, if the asset is material, such consent cannot be obtained after the use of reasonable endeavors;
- if providing such security would be prohibited by applicable law, general statutory limitations, financial assistance, corporate benefit, fraudulent preference, "thin capitalization" rules or similar matters or entering into the Transaction Security Documents would conflict with fiduciary duties of directors, contravene any legal or regulatory prohibition or result in a risk of personal or criminal liability on the part of directors or officers;

- if the granting of security or perfecting such security would have a material adverse effect on the ability of such Subsidiary to conduct its operations and business in the ordinary course as otherwise permitted by the Indenture;
- in the case of bank accounts, notices to the banks with whom the accounts are maintained will only be served if required by local laws to perfect the relevant security; and
- no guarantee or security will be provided by any member of the Unique Group or in respect of any assets of the Unique Group.

Administration and Enforcement of Security

The Transaction Security Documents and the Collateral are administered by a Security Agent (or in certain circumstances a receiver or delegate) pursuant to the Intercreditor Agreement for the benefit of all the secured parties. For a description of the Intercreditor Agreement, see "*Description of Other Indebtedness—Intercreditor Agreement.*"

The ability of Holders to realize the Collateral will be subject to various insolvency law limitations in the event of the Parent's insolvency and various contractual limitations set out in the Intercreditor Agreement. See "*Risk Factors—Risks Related to Our Structure—English and Cayman Islands insolvency laws and other jurisdictions may provide you with less protection than U.S. bankruptcy law*" and "*Risk Factors—Risks Related to Our Structure—Each Note Guarantee is subject to certain limitations on enforcement and may be limited by applicable laws or subject to certain defenses that may limit its validity and enforceability.*"

The Transaction Security Documents provide that the rights of the Holders with respect to the Collateral must be exercised by the Security Agent. Since the Holders are not a party to the Transaction Security Documents, Holders may not, individually or collectively, take any direct action to enforce any rights in their favor under the Transaction Security Documents. The Holders may only act through the Trustee or the Security Agent, as applicable. The Security Agent will agree to release a security interest created by the Transaction Security Documents at the direction of the Trustee that is in accordance with the Indenture and the Intercreditor Agreement without requiring any consent of the Holders. Subject to the terms of the Intercreditor Agreement and the Indenture, the Holders, in certain circumstances, share in the ability to direct the Trustee to direct the Security Agent to commence enforcement action under the Transaction Security Documents. See "*Description of Other Indebtedness—Intercreditor Agreement.*"

Subject to the terms of the Transaction Security Documents, the Issuer and the Guarantors have the right to remain in possession and retain control of the Collateral securing the Notes (other than as set forth in the Transaction Security Documents), to freely operate the Collateral and to collect, invest and dispose of any income therefrom.

No appraisals of any of the Collateral have been prepared by or on behalf of the Parent in connection with the issuance of the Notes. There can be no assurance that the proceeds from the sale of the Collateral remaining after the payment of obligations under the Revolving Facilities Agreement or other super priority obligations would be sufficient to satisfy the obligations owed to the Holders as well as any other obligations secured on a *pari passu* basis. By its nature, some or all the Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, there can be no assurance that the Collateral can be sold in a short period of time or at all. See "*Risk Factors—Risks Related to Our Financial Profile, the New Notes and the Note Guarantees—The Notes will be secured only to the extent of the value of the Collateral that will have been granted as security for the Notes and the Note Guarantees, and such security may not be sufficient to satisfy the obligations under the Notes and the Note Guarantees.*"

The creditors under the Revolving Facilities Agreement, the Senior Term Facilities Agreement and the Second Lien Facility Agreement and the Trustee for the Notes have, and by accepting a Note, each Holder will be deemed to have:

- irrevocably appointed Barclays Bank PLC, as Security Agent, in each case to act as its security agent under the Intercreditor Agreement and the other relevant documents to which the security agent is a party (including, without limitation, the Transaction Security Documents);
- irrevocably authorized the Security Agent to (i) perform the duties and exercise the rights, powers and discretions that are specifically given to it under the Intercreditor Agreement or other documents to which the Security Agent is a party, together with any other incidental rights, power and discretions; and (ii) execute each document expressed to be executed by the Security Agent on its behalf; and
- accepted the terms and conditions of the Intercreditor Agreement and any Additional Intercreditor Agreement (as defined herein) and each Holder will also be deemed to have authorized the Trustee to enter into any such Additional Intercreditor Agreement.

In addition, the terms of the Transaction Security Documents themselves provide for assets to cease to become subject to security in certain circumstances without the need for a formal release (such as the sale of assets which are subject to a charge) or the exclusion of certain assets from a debenture if such assets may not be subject to security (such as, for example, assets that may not be validly pledged or assets that are subject to a Permitted Lien).

Release of Liens

The Security Agent shall release, and the Trustee shall release and if so requested direct the Security Agent to release, without the need for consent of the Holders, Liens on the Collateral securing the Notes:

(1) upon payment in full of principal, interest and all other obligations on the Notes issued under the Indenture or discharge or defeasance thereof;

(2) upon release of a Note Guarantee (with respect to the Liens securing such Note Guarantee granted by such Guarantor);

(3) in connection with any disposition of Collateral to any Person; *provided* that if the Collateral is disposed to the Parent or a Restricted Subsidiary, the relevant Collateral becomes immediately subject to a substantially equivalent Lien in favor of the Security Agent securing the Notes (but excluding any transaction subject to "*—Certain Covenants—Merger and Consolidation—The Issuer and the Parent*"); *provided, further*, that, in each case, such disposition is permitted by the Indenture;

(4) if the Parent designates any Subsidiary Guarantor to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture, the release of the property, assets and Capital Stock of such Unrestricted Subsidiary;

(5) in connection with certain enforcement actions taken by the creditors under certain of our secured Indebtedness as provided under the Intercreditor Agreement, or otherwise in compliance with the Intercreditor Agreement;

(6) as may be permitted by the covenant described under "*—Certain Covenants—Impairment of Security Interest;*"

(7) in connection with an IPO Pushdown, as specified in the Indenture; and

(8) in order to effectuate a merger, consolidation, conveyance or transfer conducted in compliance with the covenant described under "*—Certain Covenants—Merger and Consolidation.*"

Each of these releases shall be effected by the Security Agent without the consent of the Holders or any action on the part of the Trustee.

IPO Pushdown

(a) On, in contemplation of, or following an IPO Event, the Parent shall be entitled to require (by written notice to the Trustee (a "*Pushdown Notice*")) that the terms of the Indenture and the Intercreditor Agreement (or any Additional Intercreditor Agreement) shall operate (with effect from the date specified in the relevant Pushdown Notice (the "*Pushdown Date*")) on the basis that: (i) references to the Parent and Restricted Subsidiaries (and all related provisions) shall apply only to the IPO Pushdown Entity and its Restricted Subsidiaries from time to time, although the Issuer shall remain the same entity and the shares of the Issuer shall be subject to a Lien in favor of the "*Secured Parties*" (as defined in the Intercreditor Agreement or any Additional Intercreditor Agreement), that is substantially equivalent to the pledge of the shares of the Issuer entered into in or about the Issue Date; (ii) all financial ratio, basket calculations and financial definitions shall exclude any Holding Company of the IPO Pushdown Entity and all reporting obligations shall be assumed at the level of the IPO Pushdown Entity; (iii) each reference in the Indenture and/or the Intercreditor Agreement (or any Additional Intercreditor Agreement) to the "Parent" shall be deemed to be a reference to the IPO Pushdown Entity (to the extent applicable and unless the context requires otherwise); and *provided* that nothing in this paragraph (a), including the deeming construct contemplated by this sub-paragraph (iii) and any action taken by the IPO Pushdown Entity prior to it being deemed to be the Parent, shall, or shall be deemed to, directly or indirectly constitute or result in a breach of any covenant or other term in the Indenture or a Default or an Event of Default; (iv) none of the representations, warranties, undertakings, covenants or Events of Default in the Indenture, the Intercreditor Agreement, any Additional Intercreditor Agreement or the Transaction Security Documents shall apply to any entity of which the IPO Pushdown Entity is Subsidiary (whether in its capacity as a Guarantor or otherwise); (v) no event, matter or circumstance relating to any Holding Company of the IPO Pushdown Entity (whether in its capacity as a Guarantor or otherwise) shall, or shall be deemed to, directly or indirectly constitute or result in a breach of any covenant or other term in the Indenture or a Default or an Event of Default; (vi) each Holding Company of the IPO Pushdown Entity shall be irrevocably and unconditionally released from all obligations under the Indenture, the Intercreditor Agreement (or any Additional Intercreditor Agreement) and any security granted by any such Holding Company (subject to sub-clause (i) above); and (vii) unless otherwise notified by the Parent: (A) each person which is party to the Intercreditor Agreement (or any Additional Intercreditor Agreement) as an "*Investor*" or an "*Intra-Group Lender*" shall be irrevocably and unconditionally released from the Intercreditor Agreement (or any Additional Intercreditor Agreement) and all obligations and restrictions under the Intercreditor Agreement or any Additional Intercreditor Agreement (and from the date specified by the Parent that Person shall cease to be party to the Intercreditor Agreement (or any Additional Intercreditor Agreement) as an Investor or Intra-Group Lender, as the case may be, and shall have no further rights or obligations under the Intercreditor Agreement (or any Additional Intercreditor Agreement) as an Investor or Intra-Group Lender, as the case may be); and (B) there shall be no obligation or requirement for any Person to become party to the Intercreditor Agreement (or any Additional Intercreditor Agreement) as an Investor or Intra-Group Lender, as the case may be; and (viii) in the event that any Person is released from or does not become party to the Intercreditor Agreement (or any Additional Intercreditor Agreement) as an Investor or Intra-Group Lender, as the case may be, as a consequence of this paragraph (a), any term of the Indenture and/or the Intercreditor Agreement (or any Additional Intercreditor Agreement) which requires or assumes that any Person be an Investor or Intra-Group Lender, as the case may be, or that any liabilities or obligations to such Person be subject to the Intercreditor Agreement (or any Additional Intercreditor Agreement) or otherwise subordinated shall cease to apply. An IPO Pushdown Notice may not be delivered if a Default or Event of Default has occurred and is continuing (disregarding any Default or Event of Default that could be deemed to arise in connection with the transactions contemplated by this provision).

(b) The Trustee and the Security Agent shall be required to enter into any amendment to the Indenture or amendment to or replacement of the Intercreditor Agreement or the Transaction Security Documents required by the Parent in writing and/or take such other action as is required by the Parent in order to facilitate or reflect any of the matters contemplated by paragraph (a) above (the "*IPO Pushdown*"); *provided* that such amendment, replacement or other document or instrument does not impose any personal obligations on the Trustee or, in the opinion of the Trustee, does not affect the rights, duties, liabilities, indemnification or immunities of the Trustee under such amendment replacement or other document or instrument. The Trustee and the Security Agent are each irrevocably authorized and instructed by the Holders (without any consent by the Holders) to execute any such amended or replacement documents and/or take other such action on behalf of the Holders (and shall do so on the request of and at the cost of the Parent).

(c) For the purpose of this covenant, the "*IPO Pushdown Entity*" shall be the Parent or any Restricted Subsidiary of the Parent notified to the Trustee by the Parent in writing as the Person to be treated as the IPO Entity in relation to the relevant IPO Event; *provided that*: (i) the IPO Entity shall be a Restricted Subsidiary which will issue shares, or whose shares are to be sold, pursuant to that IPO Event (or a Holding Company of such member of the Group); (ii) the Issuer shall become a Restricted Subsidiary of the IPO Pushdown Entity; and (iii) the Parent may not designate as the IPO Pushdown Entity any entity which is not a direct or indirect Holding Company of Restricted Subsidiaries constituting all or substantially all of the Group's assets.

(d) If the Parent delivers a Pushdown Notice to the Trustee pursuant to paragraph (a) above in relation to a contemplated IPO Event, it shall be entitled to revoke that Pushdown Notice at any time prior to the occurrence of the relevant IPO Event by written notice to the Trustee. In the event that any Pushdown Notice is revoked in accordance with this paragraph (d): (i) the provisions of sub-paragraphs (a)(i) to (a)(vii) above shall cease to apply in relation to that Pushdown Notice; (ii) if any security has been released pursuant to paragraph (a) above in reliance on that Pushdown Notice, if required by the Trustee by prior written notice to the Parent and subject to the Agreed Security Principles, the Parent or the relevant Restricted Subsidiary shall as soon as reasonably practicable execute a replacement Transaction Security Document in respect of that security; and (iii) if any Person party to the Intercreditor Agreement (or any Additional Intercreditor Agreement) as an Investor or Intra-Group Lender, as the case may be, has been released from the Intercreditor Agreement pursuant to sub-paragraph (a)(vii) above in reliance on that Pushdown Notice, if required by the Trustee by prior written notice to the Parent and that Person, that Person shall as soon as reasonably practicable accede to the Intercreditor Agreement (or any Additional Intercreditor Agreement) as an Investor or Intra-Group Lender, as the case may be.

For the avoidance of doubt: (A) nothing in paragraph (d) above shall prohibit or otherwise restrict the Parent from delivering a further Pushdown Notice in relation to any actual or contemplated IPO Event; and (B) revocation of a Pushdown Notice shall not, and shall not be deemed to, directly or indirectly constitute or result in a breach of any representation, warranty, undertaking or other term in the Indenture or the Intercreditor Agreement (or any Additional Intercreditor Agreement) or a Default or an Event of Default (whether by reason of any action or step taken by any Person, or any matter or circumstance arising or committed, while that Pushdown Notice was effective or otherwise).

Intercreditor Agreement

Pursuant to the terms of the Intercreditor Agreement, any liabilities in respect of obligations under the Revolving Facilities Agreement, Hedging Agreements and any Operating Facility (as defined in the Intercreditor Agreement) that are secured by Collateral that also secures our obligations under the Notes and the Note Guarantees, will receive priority with respect to any proceeds received upon any enforcement action over any such assets. Any remaining proceeds received upon any enforcement action over any Collateral, after all obligations under the Revolving Facilities Agreement, Hedging Agreements and any Operating Facility have been repaid from such recoveries, will be applied, first, *pro rata* in repayment of all obligations under the Indenture, the Notes and the Senior Term Facilities Agreement and any other indebtedness of the Issuer and the Guarantors permitted to be Incurred and secured by the Collateral pursuant to the Indenture and the Intercreditor Agreement on a *pari passu* basis with the Notes and the loans under the Senior Term Facilities Agreement and, second, in repayment of all obligations under the Second Lien Facility Agreement and any other indebtedness of the Issuer and the Guarantors permitted to be Incurred and secured by the Collateral pursuant to the Indenture and the Intercreditor Agreement on a *pari passu* basis with the Second Lien Facility Agreement.

Amendments to the Intercreditor Agreement and Additional Intercreditor Agreements

The Indenture provides that, at the request of the Parent, in connection with the Incurrence or refinancing by the Issuer, the Parent or its Restricted Subsidiaries of any Indebtedness secured or permitted to be secured on the Collateral, the Issuer, the Parent, the relevant Restricted Subsidiaries, the Trustee and the Security Agent, as applicable, shall enter into an intercreditor or similar agreement or a restatement, amendment or other modification of the existing Intercreditor Agreement (an "*Additional Intercreditor Agreement*") with the holders of such Indebtedness (or their duly authorized representatives) on substantially the same terms as the Intercreditor Agreement (or on terms that in the good faith judgment of the Board of Directors or an Officer of the Parent are not materially less favorable to the Holders), including containing substantially the same terms with respect to the application of the proceeds of the collateral held thereunder and the means of enforcement, it being understood that an increase in the amount of Indebtedness being subject to the terms of the Intercreditor Agreement or Additional Intercreditor Agreement will not be deemed to be less favorable to the Holders and will be permitted by this covenant if the Incurrence of such Indebtedness and any Lien in its favor is permitted by the "*—Certain Covenants—Limitation on Indebtedness*" and "*—Certain Covenants—Limitation on Liens*" covenants; *provided* that such Additional Intercreditor Agreement will not impose any personal obligations on the Trustee or, in the opinion of the Trustee, adversely affect the rights, duties, liabilities or immunities of the Trustee under the Indenture or the Intercreditor Agreement. As used herein, the term "*Intercreditor Agreement*" shall include references to any Additional Intercreditor Agreement that supplements or replaces the Intercreditor Agreement entered into on or prior to the Issue Date.

The Indenture provides that, at the written direction of the Issuer and without the consent of the Holders, the Trustee shall from time to time enter into one or more amendments to any Intercreditor Agreement to: (i) cure any ambiguity, omission, defect or inconsistency of any such agreement, (ii) increase the amount or types of Indebtedness covered by any such agreement that may be Incurred by the Issuer that is subject to any such agreement (*provided* that such Indebtedness is Incurred in compliance with the Indenture), (iii) add Restricted Subsidiaries to the Intercreditor Agreement, (iv) further secure the Notes (including Additional Notes Incurred in compliance with the Indenture), (v) make provision for equal and ratable pledges of the Collateral to secure Additional Notes Incurred in compliance with the Indenture or to implement any Permitted Collateral Liens (vi) effect the IPO Pushdown or (vii) make any other change to any such agreement that does not adversely affect the Holders in any material respect. The Issuer shall not otherwise direct the Trustee to enter into any amendment to any Intercreditor Agreement without the consent of the Holders of a majority in aggregate principal amount of the Notes then outstanding, except as otherwise permitted below under "*—Amendments and Waivers*" or as permitted by the terms of such Intercreditor Agreement, and the Issuer may only direct the Trustee to enter into any amendment to the extent such amendment does not impose any personal obligations on the Trustee or, in the opinion of the Trustee, adversely affect the rights, duties, liabilities or immunities of the Trustee under the Indenture relating to the Notes or any Intercreditor Agreement.

The Indenture provides that each Holder, by accepting a Note, shall be deemed to have agreed to and accepted the terms and conditions of any Intercreditor Agreement (whether then entered into or entered into in the future pursuant to the provisions described herein), and to have authorized the Trustee to enter into any one or more amendments to any Intercreditor Agreement as contemplated above.

The Proceeds Loan

Upon the issuance of the New Notes, the Issuer, as lender, and the Company, as borrower, will enter into one or more proceeds loan agreements pursuant to which the Issuer will loan to the Company the gross proceeds from the issuance of the New Notes.

These proceeds loan agreements will be in euros and/or pound sterling in aggregate principal amount equal to the gross proceeds of the New Notes. See "*Use of proceeds.*" The proceeds loans will bear interest at a rate sufficient to pay the interest expense on the New Notes. Interest on the new proceeds loans will be payable quarterly in arrears, in respect of the Floating Rate Notes, and semi-annually in arrears, in respect of the New Fixed Rate Notes, on or prior to the corresponding date for the payment of interest on the New Notes.

The proceeds loan agreements will provide that the Company will pay the Issuer interest and principal due and payable on the New Notes and any Additional Amounts due thereunder. All amounts payable under the proceeds loans will be payable to such account or accounts with such Person or Persons as the Issuer may designate. The maturity date of the new proceeds loans will be the same as the maturity date of the New Notes. Except as otherwise required by law, all payments under the proceeds loan agreements will be made without deductions or withholding for, or on account of, any applicable tax. In the event that the Company is required to make any such deduction or withholding, the Company shall gross- up each payment to the Issuer to ensure that the Issuer receives and retains a net payment equal to the payment which it would have received had no such deduction or withholding been made.

The proceeds loans will provide that the Company will make all payments pursuant thereto on a timely basis in order to ensure that the Issuer can satisfy its payment obligations under the New Notes and the Indenture, taking into account the administrative and timing requirements under the Indenture with respect to amounts payable on the New Notes.

The Issuer's rights under the proceeds loan agreements will be assigned by way of security to the Security Agent and will comprise part of the Collateral, as described above under "*—Security—The Collateral.*"

Optional Redemption

Optional Redemption of the Floating Rate Notes

Except as set forth herein and under "*—Redemption for Taxation Reasons*" and "*—Change of Control,*" the Floating Rate Notes are not redeemable at the option of the Issuer.

At any time prior to July 31, 2021, the Issuer may redeem the Floating Rate Notes, in whole or in part, at its option, upon not less than 10 nor more than 60 days' prior notice, at a redemption price equal to 100% of the principal amount of such Notes plus the relevant Floating Rate Applicable Premium as of, and accrued and unpaid interest and Additional Amounts, if any, to, but excluding, the redemption date.

At any time and from time to time on or after July 31, 2021, the Issuer may redeem the Floating Rate Notes, in whole or in part, at its option, upon not less than 10 nor more than 60 days' prior notice at a redemption price equal to the applicable percentage of principal amount set forth below plus accrued and unpaid interest to, but excluding, the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Period commencing	Percentage
July 31, 2021	101.0000%
July 31, 2022 and thereafter	100.0000%

Optional Redemption of the New Fixed Rate Notes

Except as set forth herein and under "*—Redemption for Taxation Reasons*" and "*—Change of Control,*" the New Fixed Rate Notes are not redeemable at the option of the Issuer.

At any time and from time to time on or after July 31, 2022, the Issuer may redeem the New Fixed Rate Notes, in whole or in part, at its option, upon not less than 10 nor more than 60 days' prior notice at a redemption price equal to the applicable percentage of principal amount set forth below plus accrued and unpaid interest to, but excluding, the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Period commencing	Percentage
July 31, 2022	104.1250%
July 31, 2023	102.0625%
July 31, 2024 and thereafter	100.0000%

At any time and from time to time prior to July 31, 2022, the Issuer may redeem the New Fixed Rate Notes (i) with the Net Cash Proceeds received by the Parent from any Equity Offering, upon not less than 10 nor more than 60 days' prior notice at a redemption price equal to 108.2500% in an aggregate principal amount for all such redemptions not to exceed 40% of the original aggregate principal amount of the New Fixed Rate Notes (including additional New Fixed Rate Notes), plus (ii) accrued and unpaid interest to, but excluding, the redemption date; *provided* that:

(1) in each case the redemption takes place not later than 120 days after the closing of the related Equity Offering, and

(2) not less than 50% of the original aggregate principal amount of the New Fixed Rate Notes (not including the principal amount of any additional New Fixed Rate Notes) remains outstanding immediately thereafter.

At any time prior to July 31, 2022, the Issuer may redeem the New Fixed Rate Notes in whole or in part, at its option, upon not less than 10 nor more than 60 days' prior notice at a redemption price equal to 100% of the principal amount of such Notes plus the relevant Fixed Rate Applicable Premium as of, and accrued and unpaid interest and Additional Amounts, if any, to, but excluding, the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date).

General

Notice of redemption will be provided as set forth under "*—Selection and Notice*" below.

If the Issuer effects an optional redemption of Notes of a series, it will, if and for so long as the Notes are listed on the Official List of the Exchange, and if and to the extent that the rules of the Exchange so require, inform the Exchange of such optional redemption and confirm the aggregate principal amount of the Notes of that series that will remain outstanding immediately after such redemption.

Any redemption may, at the Issuer's discretion, be subject to the satisfaction of one or more conditions precedent (including, in the case of a redemption related to an Equity Offering, the consummation of such Equity Offering). In addition, if such redemption is subject to satisfaction of one or more conditions precedent, the notice of redemption may state that, at the Issuer's discretion, the redemption date may be delayed until such time as any or all such conditions shall be satisfied, or such redemption may not occur and such notice may be rescinded in the event that any or all such conditions shall not have been satisfied by the redemption date, or by the redemption date so delayed; *provided* that in no case shall the notice have been delivered less than 10 days or more than 60 days prior to the date on which such redemption (if any) occurs.

If the optional redemption date is on or after an interest record date and on or before the related interest payment date, the accrued and unpaid interest will be paid to the Person in whose name the Note is registered at the close of business on such record date, and no additional interest will be payable to Holders whose Notes will be subject to redemption by the Issuer.

We may repurchase Notes at any time and from time to time in the open market or otherwise.

Sinking Fund

The Issuer is not required to make mandatory redemption payments or sinking fund payments with respect to the Notes.

Selection and Notice

If less than all the Notes are to be redeemed at any time, the Paying Agent or the Registrar will select the Notes for redemption in compliance with the requirements of the principal securities exchange, if any, on which the Notes are listed, as certified to the Trustee by the Issuer, and in compliance with the requirements of Euroclear and/or Clearstream, or if the Notes are not so listed, or such exchange prescribes no method of selection and the Notes are not held through Euroclear and/or Clearstream or Euroclear and/or Clearstream prescribes no method of selection, on a *pro rata* basis or by use of a pool-factor; *provided, however*, that no Note of €100,000 or £100,000, as the case may be, or less in aggregate principal amount shall be redeemed in part. Neither the Trustee, the Paying Agent nor the Registrar shall be liable for selections made by it under this paragraph.

If and for so long as the Notes are listed on the Official List of the Exchange, and if and to the extent the rules of the Exchange so require, the Issuer shall notify the Exchange of such redemption and, in addition to such publication, not less than 10 nor more than 60 days prior to the redemption date, mail such notice to Holders by first-class mail, postage prepaid, at their respective addresses as they appear on the registration books of the Registrar.

If any Note is to be redeemed in part only, the notice of redemption that relates to that Note shall state the portion of the principal amount thereof to be redeemed, in which case a portion of the original Note will be issued in the name of the Holder thereof upon cancellation of the original Note. In the case of a Global Note, an appropriate notation will be made on such Note to decrease the principal amount thereof to an amount equal to the unredeemed portion thereof. Subject to the terms of the applicable redemption notice (including any conditions contained therein), Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on Notes or portions of them called for redemption, unless the redemption price is not paid on the redemption date.

Redemption for Taxation Reasons

The Issuer or Successor Company (as defined herein) may redeem, and a Guarantor may cause the Issuer or Successor Company to redeem, the Notes in whole, but not in part, at its discretion at any time upon giving not less than 10 nor more than 60 days' notice to the Holders (which notice will be irrevocable) at a redemption price equal to 100% of the outstanding principal amount thereof, together with accrued and unpaid interest, if any, to, but excluding, the date fixed for redemption (a "*Tax Redemption Date*") (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date) and all Additional Amounts (see "*—Additional Amounts*"), if any, then due and which will become due on the Tax Redemption Date as a result of the redemption or otherwise, if any, if the Issuer determines that as a result of:

(1) any change in, or amendment to, the laws or treaties (or any regulations or rulings promulgated thereunder) of a Relevant Taxing Jurisdiction (as defined under "*—Additional Amounts*") affecting taxation; or

(2) any change in, or amendment to, the application, administration or interpretation of such laws, treaties, regulations or rulings (including pursuant to a holding, judgment or order by a court of competent jurisdiction or a change in published practice) of a Relevant Taxing Jurisdiction (each of the foregoing in clauses (1) and (2), a "*Change in Tax Law*"),

the Issuer, Successor Company or Guarantor are, or on the next interest payment date in respect of the Notes or any Note Guarantee would be, required to pay any Additional Amounts or increased Additional Amounts, and such obligation cannot be avoided by taking reasonable measures available to the Issuer, Successor Company or Guarantor (including, for the avoidance of doubt, the appointment of a new Paying Agent where this would be reasonable and, in the case of a payment by a Guarantor, having the Issuer or another Guarantor make the payment, but not including assignment of the obligation to make payment with respect to the Notes). In the case of redemption due to withholding as a result of a Change in Tax Law in a jurisdiction that is a Relevant Taxing Jurisdiction at the date on which the applicable Notes are issued, such Change in Tax Law must become effective on or after the date on which the applicable Notes are issued. In the case of redemption due to withholding as a result of a Change in Tax Law in a jurisdiction that becomes a Relevant Taxing Jurisdiction after the date on which the applicable Notes are issued, such Change in Tax Law must become effective on or after the date the jurisdiction becomes a Relevant Taxing Jurisdiction (or, in the case of a Successor Company, on or after the date of assumption by the Successor Company of the Issuer's obligations hereunder). Notice of redemption for taxation reasons will be published in accordance with the procedures described under "*—Selection and Notice.*"

Notwithstanding the foregoing, no such notice of redemption will be given (a) earlier than 90 days prior to the earliest date on which the Payor would be obliged to make such payment of Additional Amounts and (b) unless at the time such notice is given, such obligation to pay such Additional Amounts remains in effect. Prior to the publication or mailing of any notice of redemption of the Notes pursuant to the foregoing, the Issuer, Successor Company or Guarantor will deliver to the Trustee (a) an Officer's Certificate stating that it is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to its right so to redeem have been satisfied and that it would not be able to avoid the obligation to pay Additional Amounts by taking reasonable measures available to it and (b) an opinion of an independent tax counsel of recognized standing to the effect that the Issuer, Successor Company or Guarantor has or have been or will become obligated to pay Additional Amounts as a result of a Change in Tax Law. The Trustee will accept such Officer's Certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, without further inquiry, in which event it will be conclusive and binding on the Holders.

Additional Amounts

All payments made by or on behalf of the Issuer or a Successor Company under or with respect to the Notes, or any Guarantor (each of the Issuer, Successor Company and Guarantor, a "*Payor*") with respect to any Note Guarantee, will be made free and clear of and without withholding or deduction for, or on account of, any Taxes unless the withholding or deduction of such Taxes is then required by law. If any deduction or withholding for, or on account of, any Taxes imposed or levied by or on behalf of:

(1) the United Kingdom or any political subdivision or Governmental Authority thereof or therein having power to tax;

(2) any jurisdiction from or through which payment on any such Note or Note Guarantee is made by or on behalf of the Issuer, Successor Company, Guarantor or their agents, or any political subdivision or Governmental Authority thereof or therein having the power to tax; or

(3) any other jurisdiction in which the Payor is incorporated or organized, engaged in business for tax purposes, resident for tax purposes, or any political subdivision or Governmental Authority thereof or therein having the power to tax (each of clause (1), (2) and (3), a "*Relevant Taxing Jurisdiction*"),

will at any time be required from any payments made with respect to any Note or Note Guarantee, including payments of principal, purchase or redemption price, premium, if any, or interest, the Payor will pay (together with such payments) such additional amounts (the "*Additional Amounts*") as may be necessary in order that the net amounts received in respect of such payments by the Holders or the Trustee, as the case may be, after such withholding or deduction (including any such deduction or withholding from such Additional Amounts), will not be less than the amounts which would have been received in respect of such payments on any such Note or Note Guarantee in the absence of such withholding or deduction; *provided, however*, that no such Additional Amounts will be payable for or on account of:

(1) any Taxes that would not have been so imposed but for the existence of any present or former connection between the relevant Holder or the beneficial owner of a Note (or between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of power over the relevant Holder or beneficial owner, if the relevant Holder or beneficial owner is an estate, nominee, trust, partnership, limited liability company or corporation) and the Relevant Taxing Jurisdiction (including, but not limited to, being a citizen or resident or national or domiciliary of, or the existence of a business, a permanent establishment, a dependent agent, a place of business or a place of management present or deemed present in the Relevant Taxing Jurisdiction) but excluding, in each case, any connection arising solely from the acquisition, ownership or holding of such Note or Note Guarantee, the enforcement of rights under a Note or Note Guarantee or the receipt of any payment in respect thereof;

(2) any Taxes that are imposed, withheld or deducted by reason of the failure by the Holder or the beneficial owner of the Note to comply with a written request of the Payor addressed to the Holder or the beneficial owner, after reasonable notice, to provide certification, information, documents or other evidence concerning the nationality, residence, identity or connection with the Relevant Taxing Jurisdiction of the Holder or such beneficial owner or to make any declaration or similar claim or satisfy any certification, identification, information or other reporting requirement relating to such matters, required by applicable law, regulation, treaty or administrative practice of the Relevant Taxing Jurisdiction as a precondition to exemption from or reduction in the rate of all or part of such Tax; *provided* in each case the Holder or beneficial owner is legally eligible to do so;

(3) any Taxes that are payable otherwise than by deduction or withholding from a payment under or with respect to the Notes or any Note Guarantee;

(4) any estate, inheritance, gift, value added, sales, transfer, personal property or similar Taxes;

(5) any Taxes imposed with respect to any withholding or deduction that is imposed in connection with Sections 1471-1474 of the Code and U.S. Treasury regulations thereunder ("*FATCA*"), any intergovernmental agreement between the United States and any other jurisdiction implementing or relating to FATCA or any non-U.S. law, regulation or guidance enacted or issued with respect thereto;

(6) any Taxes which would not have been imposed if the Holder had presented the Note for payment (where presentation is permitted or required for payment) within 30 days after the relevant payment was first made available for payment to the Holder (except for Additional Amounts with respect to Taxes that would have been imposed had the Holder presented the Note for payment within such 30-day period);

(7) any Taxes imposed on or with respect to a payment to a Holder that is a fiduciary or partnership or any Person other than the sole beneficial owner of such payment or Note, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such partnership or the beneficial owner of such payment or Note would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the actual Holder of such Note; or

(8) any combination of the above.

The Payor will (i) make any required withholding or deduction and (ii) remit the full amount deducted or withheld to the Relevant Taxing Jurisdiction in accordance with applicable law. The Payor will use reasonable efforts to obtain certified copies of tax receipts evidencing the payment of any Taxes so deducted or withheld from each Relevant Taxing Jurisdiction imposing such Taxes, in such form as provided in the ordinary course by the Relevant Taxing Jurisdiction and as is reasonably available to the Payor, and if so obtained by the Payor will provide such certified copies to the Trustee. If so obtained, such copies shall be made available to the Holders upon request. The Payor will attach to each certified copy a certificate stating (x) that the amount of withholding Taxes evidenced by the certified copy was paid in connection with payments in respect of the principal amount of Notes then outstanding and (y) the amount of such withholding Taxes paid per £1,000 or €1,000 principal amount of the Notes, as the case may be.

If any Payor becomes aware that it will be obligated to pay Additional Amounts under or with respect to any payment made on any Note or Note Guarantee, at least 30 days prior to the date of such payment, the Payor will deliver to the Trustee and Paying Agent an Officer's Certificate stating the fact that Additional Amounts will be payable and the amount so payable and such other information necessary to enable the Paying Agent to pay Additional Amounts to Holders on the relevant payment date (unless such obligation to pay Additional Amounts arises, or the Payor becomes aware of such obligation, less than 45 days prior to the relevant payment date, in which case the Payor may deliver such Officer's Certificate as promptly as practicable after the date that is 30 days prior to the payment date). The Trustee and Paying Agent shall be entitled to rely solely on such Officer's Certificate without further inquiry, as conclusive proof that such payments are necessary.

Wherever in the Indenture, the Note Guarantees or this "*Description of the Notes*" there are mentioned, in any context:

(1) the payment of principal;

(2) purchase or redemption prices in connection with a purchase or redemption of Notes;

(3) interest; or

(4) any other amount payable on or with respect to any of the Notes or Note Guarantees,

such reference shall be deemed to include payment of Additional Amounts as described under this heading to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

The Payor will pay any present or future stamp, court or documentary Taxes, or any other excise, property or similar Taxes that arise in any jurisdiction from the execution, delivery, registration or enforcement of any Notes, any Note Guarantee, the Indenture, the Proceeds Loan Agreements, the Transaction Security Documents or any other document or instrument in relation thereto (other than a transfer or exchange of the Notes) excluding any such Taxes, charges or similar levies imposed by any jurisdiction that is not a Relevant Taxing Jurisdiction.

The foregoing obligations of this "*Additional Amounts*" section will survive any termination, defeasance or discharge of the Indenture and will apply mutatis mutandis to any jurisdiction in which any successor to the Issuer or any Guarantor is organized or any political subdivision or taxing authority or agency thereof or therein.

Change of Control

If a Change of Control occurs, subject to the terms hereof, each Holder will have the right to require the Issuer to repurchase all (equal to £100,000 or €100,000 aggregate principal amount, and integral multiples of £1,000 or €1,000 in excess thereof, as the case may be) of such Holder's Notes at a purchase price in cash equal to 101% of the principal amount of the Notes, plus accrued and unpaid interest to the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date); *provided, however*, that the Issuer shall not be obliged to repurchase Notes as described under this "*Change of Control*" section in the event and to the extent that it has unconditionally exercised its right to redeem all of the Notes as described under "*—Optional Redemption*" or all conditions to such redemption have been satisfied or waived.

Unless the Issuer has unconditionally exercised its right to redeem all the Notes as described under "*—Optional Redemption*" or all conditions to such redemption have been satisfied or waived, no later than the date that is 60 days after any Change of Control, the Issuer will send a notice (the "*Change of Control Offer*") to each Holder of any such Notes, by mail or otherwise in accordance with the procedures set forth in the Indenture, with a copy to the Trustee:

(1) stating that a Change of Control has occurred or may occur and that such Holder has the right to require the Issuer to purchase all or any part of such Holder's Notes at a purchase price in cash equal to 101% of the principal amount of such Notes plus accrued and unpaid interest and Additional Amounts, if any, to, but not including, the date of purchase (subject to the right of Holders of record on a record date to receive interest on the relevant interest payment date) (the "*Change of Control Payment*");

(2) stating the repurchase date (which shall be no earlier than 10 days nor later than 60 days from the date such notice is sent) (the "*Change of Control Payment Date*");

(3) describing the circumstances and relevant facts regarding the transaction or transactions that constitute the Change of Control;

(4) describing the procedures determined by the Issuer, consistent with the Indenture, that a Holder must follow in order to have its Notes repurchased; and

(5) if such notice is mailed prior to the occurrence of a Change of Control, stating that the Change of Control Offer is conditional on the occurrence of such Change of Control.

On the Change of Control Payment Date, if the Change of Control shall have occurred, the Issuer will, to the extent lawful:

(1) accept for payment all Notes or portions thereof properly tendered pursuant to the Change of Control Offer;

(2) deposit with the Paying Agent an amount equal to the Change of Control Payment in respect of all Notes so tendered;

(3) deliver or cause to be delivered to the Trustee an Officer's Certificate stating the aggregate principal amount of Notes or portions thereof being purchased by the Issuer in the Change of Control Offer;

(4) in the case of Global Notes, deliver, or cause to be delivered, to the Paying Agent the Global Notes in order to reflect thereon the portion of such Notes or portions thereof that have been tendered to and purchased by the Issuer; and

(5) in the case of Definitive Registered Notes, deliver, or cause to be delivered, to the relevant Registrar for cancellation all Definitive Registered Notes accepted for purchase by the Issuer.

If any Definitive Registered Notes have been issued, the Paying Agent will promptly mail to each Holder of Definitive Registered Notes so tendered the Change of Control Payment for such Notes, and the Trustee or an authentication agent appointed by the Trustee will promptly authenticate (or cause to be authenticated) and mail (or cause to be transferred by book entry) to each Holder of Definitive Registered Notes a new Definitive Registered Note equal in an aggregate principal amount to the unpurchased portion of the Notes surrendered, if any; *provided* that each such new Note will be in an aggregate principal amount that is at least £100,000 or €100,000 or an integral multiple of £1,000 or €1,000 in excess thereof.

If and for so long as the Notes are listed on the Official List of the Exchange, and if and to the extent that the rules of the Exchange so require, the Issuer will notify the Exchange of any Change of Control Offer.

Notwithstanding anything to the contrary herein, a Change of Control Offer may be made in advance of a Change of Control, conditional upon such Change of Control; *provided* that the purchase date will be no earlier than 30 days from the date a notice of such Change of Control Offer is mailed.

The Change of Control provisions described above will be applicable whether or not any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the Holders to require that the Issuer repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction. The existence of a Holder's right to require the Issuer to repurchase such Holder's Notes upon the occurrence of a Change of Control may deter a third party from seeking to acquire the Parent or its Subsidiaries in a transaction that would constitute a Change of Control.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Issuer and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

If Holders of not less than 90% in aggregate principal amount of the applicable series of outstanding Notes validly tender and do not withdraw such Notes in a Change of Control Offer and the Issuer, or any third-party making a Change of Control Offer in lieu of the Issuer as described above, purchases all of the applicable series of Notes validly tendered and not withdrawn by such Holders, the Issuer or such third-party will have the right, upon not less than 10 nor more than 60 days' prior notice, given not more than 30 days following such purchase pursuant to the Change of Control Offer described above, to redeem all Notes of the applicable series that remain outstanding following such purchase at a price in cash equal to 101% of the aggregate principal amount of such Notes, plus accrued and unpaid interest on the Notes that remain outstanding to, but not including, the date of redemption (subject to the right of Holders of record on the relevant record date to receive interest due on an interest payment date that is on or prior to the redemption date). In determining whether the Holders of at least 90% of the aggregate principal amount of the applicable series of then outstanding Notes have validly tendered and not withdrawn Notes in a Change of Control Offer for all of the Notes of the applicable series, as applicable, Notes owned by an affiliate of the Issuer or by funds controlled or managed by any affiliate of the Issuer, or any successor thereof, shall be deemed to be outstanding for the purposes of such tender offer or other offer, as applicable.

The Issuer will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations (or rules of any exchange on which the Notes are then listed) in connection with the repurchase of Notes pursuant to this covenant. To the extent that the provisions of any securities laws or regulations (or exchange rules) conflict with provisions of the Indenture, the Issuer will comply with the applicable securities laws and regulations (or exchange rules) and will not be deemed to have breached its obligations under the Change of Control provisions of the Indenture by virtue of the conflict.

A Change of Control will result in a mandatory prepayment under the Revolving Facilities Agreement and a right to require repayment of outstanding loans under the Senior Term Facilities Agreement and the Second Lien Facility Agreement. Future debt of the Parent or its Subsidiaries, including the Issuer, may prohibit the Issuer from purchasing Notes in the event of a Change of Control or provide that a Change of Control is a default or may require repurchase upon a Change of Control. Moreover, the exercise by the Holders of their right to require the Issuer to purchase the Notes could cause a default under, or require a repurchase of, other debt, even if the Change of Control itself does not, due to the financial effect of the purchase on the Parent or the Issuer.

Finally, the Issuer's ability to pay cash to the Holders following the occurrence of a Change of Control may be limited by the Issuer's and the Parent's then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See "*Risk Factors—Risks Related to Our Structure—We may not be able to obtain the funds required to repurchase the Notes upon a change of control.*"

In addition, the definition of "*Change of Control*" and "*Permitted Holders*" expressly permit a third party to obtain control of the Parent in a transaction which is a Specified Change of Control Event without any obligation to make a Change of Control Offer.

The definition of "*Change of Control*" includes a disposition of all or substantially all of the property and assets of the Parent and its Restricted Subsidiaries taken as a whole to specified other Persons.

Although there is limited case law interpreting the phrase "*substantially all,*" there is no precise established definition of the phrase "*substantially all*" under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of "*all or substantially all*" of the property or assets of a Person. As a result, it may be unclear as to whether a Change of Control has occurred and whether a Holder may require the Issuer to make an offer to repurchase the Notes as described above.

The provisions of the Indenture relating to the Issuer's obligation to make an offer to repurchase the Notes as a result of a Change of Control may be waived or modified with the written consent of Holders of a majority in outstanding aggregate principal amount of the Notes under the Indenture.

Certain Covenants

Limitation on Indebtedness

The Parent will not, and will not permit any of its Restricted Subsidiaries to, Incur any Indebtedness (including Acquired Indebtedness); *provided, however*, that the Parent and any Restricted Subsidiary may Incur Indebtedness if on the date of such Incurrence and after giving pro forma effect thereto (including pro forma application of the proceeds thereof), the Fixed Charge Coverage Ratio for the Parent and its Restricted Subsidiaries for the most recently ended four full trading quarters for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is Incurred would have been at least 2.0 to 1.0.

The first paragraph of this covenant will not prohibit the Incurrence of the following Indebtedness:

(1) Indebtedness Incurred by the Parent and any Restricted Subsidiary pursuant to any Credit Facility (including in respect of letters of credit or bankers' acceptances issued or created thereunder), and any Refinancing Indebtedness in respect thereof and Guarantees in respect of such Indebtedness in a maximum aggregate principal amount of Indebtedness then outstanding not exceeding: (i) the greater of (x) £282.0 million and (y) 50.0% of Consolidated EBITDA, plus (ii) £450.0 million, plus (iii) in the case of any refinancing of any Indebtedness permitted under this clause (1) or any portion thereof, the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses Incurred in connection with such refinancing; *provided* that, any Refinancing Indebtedness that is Incurred in respect of the Senior Term Loans, will be deemed to have been Incurred under sub-clause (1)(ii) above);

(2) (a) Guarantees by the Parent or any Restricted Subsidiary of Indebtedness of the Parent or any Restricted Subsidiary, in each case, so long as the Incurrence of such Indebtedness being guaranteed is permitted under the terms of the Indenture (other than pursuant to this clause (2)); *provided* that, if Indebtedness being guaranteed is subordinated or *pari passu* to the Notes or a Note Guarantee, then the guarantee must be subordinated or *pari passu* to the Notes or Note Guarantees, as applicable, to the same extent as the Indebtedness guaranteed; or

    (b) without limiting the covenant described under "*Limitation on Liens,*" Indebtedness arising by reason of any Lien granted by or applicable to such Person securing Indebtedness of the Parent or any Restricted Subsidiary, in each case, so long as the Incurrence of such Indebtedness is permitted under the terms of the Indenture;

(3) Indebtedness of the Parent owing to and held by any Restricted Subsidiary or Indebtedness of a Restricted Subsidiary owing to and held by the Parent or any Restricted Subsidiary; *provided, however*, that:

    (a) other than in respect of intercompany current liabilities Incurred in connection with credit management, cash management, cash pooling, netting, setting off or similar arrangements in the ordinary course of business of the Parent and the Restricted Subsidiaries, if the Issuer or any Guarantor is the obligor on such Indebtedness and the payee is not the Issuer or a Guarantor, such Indebtedness must be unsecured and expressly subordinated to the prior payment in full in cash of all obligations then due (x) in the case of the Issuer, with respect to the Notes, or (y) in the case of a Guarantor, with respect to its Note Guarantee, in each case in the manner and to the extent provided for in the Intercreditor Agreement; and

(b) (i) any subsequent issuance or transfer of Capital Stock or any other event which results in any such Indebtedness being beneficially held by a Person other than the Parent or a Restricted Subsidiary; and (ii) any sale or other transfer of any such Indebtedness to a Person other than the Parent or a Restricted Subsidiary, shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (3) by the Parent or such Restricted Subsidiary, as the case may be;

(4) Indebtedness represented by:

(a) (x) the Senior Bridge Loans, any Notes, any Guarantee of the Senior Bridge Loans and any Note Guarantee not exceeding £1,450.0 million and (y) the Second Lien Loans and any Guarantee of the Second Lien Loans not exceeding £400.0 million;

(b) any Indebtedness (other than Indebtedness described in clauses (1), (3), (4)(a) and (7) of this paragraph) of the Parent or any Restricted Subsidiary entered into or outstanding on the Closing Date after giving effect to the Transactions;

(c) Refinancing Indebtedness that is Incurred in respect of any Indebtedness described in this clause (4) (other than Refinancing Indebtedness that is Incurred in respect of the Senior Bridge Loans, any Notes, any Guarantee of the Senior Bridge Loans and any Note Guarantee, which will be deemed to have been Incurred under clause (4)(a)(x) of this paragraph and Refinancing Indebtedness that is incurred in respect of the Second Lien Loans, which shall be deemed to have been Incurred under clause (4)(a)(y) of this paragraph) or clause (5) of this paragraph or Incurred pursuant to the first paragraph of this covenant;

(d) Management Advances and MEP Payments;

(e) the Unique Securitized Notes; and

(f) the Proceeds Loan;

(5) Indebtedness (i) of any Person Incurred and outstanding on the date on which such Person becomes a Restricted Subsidiary or is merged, consolidated, amalgamated or otherwise combined with (including pursuant to any acquisition of assets and assumption of related liabilities) the Parent or any Restricted Subsidiary, or (ii) Incurred to provide or refinance all or any portion of the funds utilized to consummate a transaction or series of related transactions pursuant to which a Person became a Restricted Subsidiary or was otherwise acquired by the Parent or a Restricted Subsidiary or otherwise in connection with or contemplation of such acquisition; *provided, however*, with respect to sub-clauses (5)(i) and (5)(ii), that at the time of such acquisition or other transaction (x) the Parent and its Restricted Subsidiaries would have been permitted to Incur £1.00 of additional Indebtedness pursuant to the first paragraph of this covenant after giving pro forma effect to the relevant acquisition and Incurrence of such Indebtedness pursuant to this clause (5) or (y) the Fixed Charge Coverage Ratio for the Parent and its Restricted Subsidiaries for the most recently ended four full trading quarters for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is Incurred would not be lower than it was immediately prior to giving effect to such acquisition or other transaction;

(6) Indebtedness under Hedging Agreements entered into for bona fide hedging purposes of the Parent or its Restricted Subsidiaries and not for speculative purposes (as determined in good faith by the Board of Directors or an Officer of the Parent);

(7) Indebtedness consisting of (A) Capitalized Lease Obligations, mortgage financings, Purchase Money Obligations or other financings, Incurred for the purpose of financing all or any part of the purchase price or cost of construction or improvement of property, plant or equipment used in a Similar Business, or (B) Indebtedness otherwise Incurred to finance the purchase, lease, rental or cost of design, construction, installation or improvement of property (real or personal) or equipment that is used or useful in a Similar Business, whether through the direct purchase of assets or the Capital Stock of any Person owning such assets, and (C) any Refinancing Indebtedness and Guarantees in respect of sub-clauses (A) or (B), in an aggregate outstanding principal amount which, when taken together with the principal amount of all other Indebtedness Incurred pursuant to this clause (7) then outstanding, will not exceed the greater of (i) £47.0 million and (ii) 10.0% of Consolidated EBITDA;

(8) Indebtedness in respect of (a) workers' compensation claims, self-insurance obligations, performance, indemnity, surety, judgment, appeal, advance payment, customs, VAT or other tax or other guarantees or other similar bonds, instruments or obligations and completion guarantees and

warranties provided by the Parent or a Restricted Subsidiary or relating to liabilities, obligations, indemnities or guarantees Incurred in the ordinary course of business or for governmental or regulatory requirements, (b) letters of credit, bankers' acceptances, guarantees or other similar instruments or obligations issued or relating to liabilities or obligations Incurred in the ordinary course of business, *provided*, *however*, that upon the drawing of such letters of credit or other instrument, such obligations are reimbursed within 30 days following such drawing, (c) the financing of insurance premiums in the ordinary course of business, and (d) any credit management, cash management, cash pooling, netting, setting off or similar arrangements in the ordinary course of business of the Parent and the Restricted Subsidiaries;

(9) Indebtedness arising from agreements providing for customary guarantees, indemnification, obligations in respect of earn-outs or other adjustments of purchase price or, in each case, similar obligations, in each case, Incurred or assumed in connection with the acquisition or disposition of any business or assets or Person or any Capital Stock of a Subsidiary (other than Guarantees of Indebtedness Incurred by any Person acquiring or disposing of such business or assets or such Subsidiary for the purpose of financing such acquisition or disposition);

(10) (A) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; *provided, however*, that such Indebtedness is extinguished within 60 Business Days of Incurrence;

(B) Indebtedness owed on a short-term basis of no longer than 60 days to banks and other financial institutions Incurred in the ordinary course of business of the Parent and its Restricted Subsidiaries with such banks or financial institutions that arises in connection with ordinary banking arrangements to manage cash balances of the Parent and its Restricted Subsidiaries; and

(C) Indebtedness Incurred by a Restricted Subsidiary in connection with bankers' acceptances, discounted bills of exchange or the discounting or factoring of receivables for credit management purposes, in each case, Incurred or undertaken in the ordinary course of business;

(11) Indebtedness in an aggregate outstanding principal amount which, when taken together with any Refinancing Indebtedness and Guarantees in respect thereof and the aggregate principal amount of all other Indebtedness Incurred pursuant to this clause (11) then outstanding, will not exceed the greater of (i) £70.5 million and (ii) 15.0% of Consolidated EBITDA;

(12) Indebtedness (including any Refinancing Indebtedness and Guarantees in respect thereof) in an aggregate outstanding principal amount which, when taken together with the principal amount of all other Indebtedness Incurred pursuant to this clause (12) and then outstanding, will not exceed 100% of the Net Cash Proceeds received by the Parent from the issuance or sale (other than to a Restricted Subsidiary) of its Subordinated Shareholder Funding or its Capital Stock (other than through the Equity Contribution, Disqualified Stock, Designated Preference Shares or an Excluded Contribution) or otherwise contributed to the equity (other than through the Equity Contribution, issuance of Disqualified Stock, Designated Preference Shares or an Excluded Contribution) of the Parent, in each case, subsequent to the Closing Date; *provided, however*, that (i) any such Net Cash Proceeds that are so received or contributed shall be excluded for purposes of making Restricted Payments under the first paragraph and clauses (1), (6), (10) and (14) of the third paragraph of the covenant described under "*—Limitation on Restricted Payments*" to the extent the Parent and its Restricted Subsidiaries Incur Indebtedness in reliance thereon and (ii) any Net Cash Proceeds that are so received or contributed shall be excluded for purposes of Incurring Indebtedness pursuant to this clause (12) to the extent the Parent or any of its Restricted Subsidiaries makes a Restricted Payment under the first paragraph and/or clauses (1), (6), (10) and (14) of the third paragraph of the covenant described under "*—Limitation on Restricted Payments*" in reliance thereon; *provided, further*, that the contribution of new shareholder funds made in connection with the issuance of the Existing Fixed Rate Notes shall be deemed to qualify as Net Cash Proceeds for the purpose of this clause (12);

(13) Indebtedness Incurred by a Receivables Subsidiary in a Qualified Receivables Financing; and

(14) Incurrence by any member of the Unique Group of Indebtedness under any Unique Liquidity Facility.

For purposes of determining compliance with, and the outstanding principal amount of any particular Indebtedness Incurred pursuant to and in compliance with this covenant:

(i) in the event that Indebtedness meets the criteria of more than one of the types of Indebtedness described in the first and second paragraphs of this covenant, the Parent, in its sole discretion, will classify, and may from time to time reclassify, such item (or any portion of such item) of Indebtedness and only be required to include the amount and type of such Indebtedness in one of the clauses of the second paragraph or the first paragraph of this covenant; *provided* that the Parent may not reclassify Indebtedness outstanding on March 12, 2020 that is Incurred under sub-clauses (1)(i), (1)(ii), (4)(e) and clause (14) of the second paragraph of this covenant. For the avoidance of doubt, Indebtedness outstanding on the Issue Date under the Revolving Facilities Agreement is Incurred under sub-clause (1)(i) of the second paragraph of this covenant and Indebtedness outstanding on the Issue Date under the Senior Term Facilities Agreement is Incurred under sub-clause (1)(ii) of the second paragraph of this covenant;

(ii) Guarantees of, or obligations in respect of, letters of credit, bankers' acceptances or other similar instruments relating to, or Liens securing, Indebtedness that is otherwise included in the determination of a particular amount of Indebtedness shall not be included;

(iii) if obligations in respect of letters of credit, bankers' acceptances or other similar instruments are Incurred pursuant to any Credit Facility and are being treated as Incurred pursuant to clauses (1), (7) or (11) of the second paragraph of this covenant or the first paragraph of this covenant and the letters of credit, bankers' acceptances or other similar instruments relate to other Indebtedness, then such other Indebtedness shall not be included;

(iv) the principal amount of any Disqualified Stock of the Parent or a Restricted Subsidiary, or Preferred Stock of a Restricted Subsidiary, will be equal to the greater of the maximum mandatory redemption or repurchase price (not including, in either case, any redemption or repurchase premium) or the liquidation preference thereof;

(v) for the purposes of determining "*Consolidated EBITDA*", (x) pro forma effect shall be given to Consolidated EBITDA on the same basis as for calculating the Consolidated Leverage Ratio for the Parent and its Restricted Subsidiaries and (y) Consolidated EBITDA shall be measured on the most recent date on which new commitments are obtained (in the case of revolving facilities) or the date on which new Indebtedness is Incurred (in the case of term facilities) and for the period of the most recent four consecutive trading quarters ending prior to the date for which such internal consolidated financial statements of the Parent are available;

(vi) Indebtedness permitted by this covenant need not be permitted solely by reference to one provision permitting such Indebtedness but may be permitted in part by one such provision and in part by one or more other provisions of this covenant permitting such Indebtedness; and

(vii) the amount of any Indebtedness outstanding as of any date shall be calculated as described under the definition of "*Indebtedness;*" *provided* that the amount of Indebtedness issued at a price that is less than the principal amount thereof will be equal to the amount of the liability in respect thereof determined on the basis of IFRS.

Accrual of interest, accrual of dividends, the accretion of accreted value, the accretion or amortization of original issue discount, the payment of interest in the form of additional Indebtedness, the payment of dividends in the form of additional shares of Preferred Stock or Disqualified Stock or the reclassification of commitments or obligations not treated as Indebtedness due to a change in IFRS, including a change in IFRS itself or a change from IFRS to a different set of accounting principles, will not be deemed to be an Incurrence of Indebtedness for purposes of this covenant.

If at any time an Unrestricted Subsidiary becomes a Restricted Subsidiary, any Indebtedness of such Subsidiary shall be deemed to be Incurred by a Restricted Subsidiary as of such date.

For purposes of determining compliance with any pound sterling-denominated restriction on the Incurrence of Indebtedness, the Sterling Equivalent of the aggregate principal amount of Indebtedness denominated in another currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was Incurred, in the case of term Indebtedness, or, at the option of the Parent, on the date first committed, in the case of Indebtedness Incurred under a revolving credit facility, or, at the option of the Parent, on the date of pricing, in the case of Public Debt; *provided* that (a) if such Indebtedness is Incurred to refinance other Indebtedness denominated in a currency other than pound sterling, and such refinancing would cause the applicable pound sterling-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such pound sterling-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such Refinancing Indebtedness does not exceed the aggregate principal amount of such Indebtedness being refinanced, plus any amount to pay premium (including tender premium), accrued and unpaid interest, expenses, defeasance costs and fees in connection therewith; (b) the Sterling Equivalent of the aggregate principal amount of any such Indebtedness outstanding on the Closing Date shall be calculated based on the relevant currency exchange rate in effect on the Closing Date; and (c) if and for so long as any such Indebtedness is subject to a Currency Agreement with respect to the currency in which such Indebtedness is denominated covering principal and interest on such Indebtedness, the amount of such Indebtedness, if denominated in pound sterling, will be the amount of the principal payment required to be made under such Currency Agreement and, otherwise, the Sterling Equivalent of such amount plus the Sterling Equivalent of any premium which is at such time due and payable but is not covered by such Currency Agreement.

Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that the Parent or a Restricted Subsidiary may Incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in the exchange rate of currencies. The principal amount of any Indebtedness Incurred to refinance other Indebtedness, if Incurred in a different currency from the Indebtedness being refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such Refinancing Indebtedness is denominated that is in effect on the date of such refinancing.

Limitation on Restricted Payments

The Parent will not, and will not permit any of its Restricted Subsidiaries, directly or indirectly, to:

(1) declare or pay any dividend or make any other distribution on or in respect of the Parent's or any Restricted Subsidiary's Capital Stock (including any payment in connection with any merger or consolidation involving the Parent or any of its Restricted Subsidiaries) except:

  (a) dividends or distributions payable in Capital Stock of the Parent (other than Disqualified Stock) or in options, warrants or other rights to purchase such Capital Stock of the Parent or in Subordinated Shareholder Funding; and

  (b) dividends or distributions payable to the Parent or a Restricted Subsidiary (and, in the case of any such Restricted Subsidiary making such dividend or distribution, to holders of its Capital Stock other than the Parent or a Restricted Subsidiary on no more than a *pro rata* basis, measured by value);

(2) purchase, redeem, retire or otherwise acquire for value any Capital Stock of the Parent or any direct or indirect Holding Entity held by Persons other than the Parent or a Restricted Subsidiary (other than in exchange for Capital Stock of the Parent (other than Disqualified Stock));

(3) make any principal payment on, or purchase, repurchase, redeem, defease or otherwise acquire or retire for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment, any Subordinated Indebtedness (other than (a) any such payment, purchase, repurchase, redemption, defeasance or other acquisition or retirement or in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case, due within one year of the date of payment, purchase, repurchase, redemption, defeasance or other acquisition or retirement and (b) any Indebtedness Incurred pursuant to clause (3) of the second paragraph of the covenant described under "*—Limitation on Indebtedness*");

(4) make any payment (other than by capitalization of interest) on or with respect to, or purchase, repurchase, redeem, defease or otherwise acquire or retire for value any Subordinated Shareholder Funding; or

(5) make any Restricted Investment in any Person;

(any such dividend, distribution, payment, purchase, redemption, repurchase, defeasance, other acquisition, retirement or Restricted Investment referred to in clauses (1) to (5) above are referred to herein as a "*Restricted Payment*"), if at the time the Parent or such Restricted Subsidiary makes such Restricted Payment:

  (a) a Default or Event of Default shall have occurred and be continuing (or would result immediately thereafter therefrom);

  (b) the Parent and its Restricted Subsidiaries are not permitted to Incur an additional £1.00 of Indebtedness pursuant to the first paragraph of the covenant described under "*—Limitation on Indebtedness*" after giving effect, on a pro forma basis, to such Restricted Payment; or

  (c) the aggregate amount of such Restricted Payment and all other Restricted Payments made subsequent to the Closing Date (and not returned or rescinded) (including Permitted Payments permitted below by clauses (5)(a) (without duplication of amounts paid pursuant to any other clause of the second succeeding paragraph), (6), (10), (11) and (12) of the second succeeding paragraph, but excluding all other Restricted Payments permitted by the second succeeding paragraph) would exceed the sum of (without duplication):

(i) 50% of Consolidated Net Income for the period (treated as one accounting period) from the first day of the first trading quarter commencing after the Issue Date to the end of the most recent trading quarter ending prior to the date of such Restricted Payment for which internal consolidated financial statements of the Parent are available (or, in the case such Consolidated Net Income is a deficit, minus 100% of such deficit);

(ii) 100% of the aggregate Net Cash Proceeds, and the fair market value of property or assets or marketable securities, received by the Parent from the issue or sale of its Capital Stock (other than Disqualified Stock or Designated Preference Shares) or Subordinated Shareholder Funding subsequent to the Closing Date or otherwise contributed to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares) of the Parent subsequent to the Closing Date (other than (x) Net Cash Proceeds or property or assets or marketable securities received from an issuance or sale of such Capital Stock to a Restricted Subsidiary or an employee stock ownership plan or trust established by the Parent or any Subsidiary of the Parent for the benefit of its employees to the extent funded by the Parent or any Restricted Subsidiary, (y) Net Cash Proceeds or property or assets or marketable securities to the extent that any Restricted Payment has been made from such proceeds in reliance on clause (6) of the second succeeding paragraph and (z) Excluded Contributions since the Closing Date or the Equity Contribution);

(iii) 100% of the aggregate Net Cash Proceeds, and the fair market value of property or assets or marketable securities, received by the Parent or any Restricted Subsidiary from the issuance or sale (other than to the Parent or a Restricted Subsidiary or an employee stock ownership plan or trust established by the Parent or any Subsidiary of the Parent for the benefit of its employees to the extent funded by the Parent or any Restricted Subsidiary) by the Parent or any Restricted Subsidiary subsequent to the Closing Date of any Indebtedness that has been converted into or exchanged for Capital Stock of the Parent (other than Disqualified Stock or Designated Preference Shares) or Subordinated Shareholder Funding (plus the amount of any cash, and the fair market value of property or assets or marketable securities, received by the Parent or any Restricted Subsidiary upon such conversion or exchange) but excluding (x) Net Cash Proceeds to the extent that any Restricted Payment has been made from such proceeds in reliance on clause (6) of the second succeeding paragraph and (y) Excluded Contributions since the Closing Date or the Equity Contribution;

(iv) the amount equal to the net reduction in Restricted Investments made by the Parent or any of its Restricted Subsidiaries subsequent to the Closing Date resulting from:

(A) repurchases, redemptions or other acquisitions or retirements of any such Restricted Investment, proceeds realized upon the sale or other disposition to a Person other than the Parent or a Restricted Subsidiary of any such Restricted Investment, repayments of loans or advances or other transfers of assets (including by way of dividend, distribution, interest payments or returns of capital) to the Parent or any Restricted Subsidiary; or

(B) the redesignation of Unrestricted Subsidiaries as Restricted Subsidiaries (valued, in each case, as provided in the definition of "*Investment*") not to exceed, in the case of any Unrestricted Subsidiary, the amount of Investments previously made by the Parent or any Restricted Subsidiary in such Unrestricted Subsidiary, which amount, in each case under this sub-clause (iv), was included in the calculation of the amount of Restricted Payments referred to in the first sentence of this clause (c);

provided, *however*, that no amount will be included in Consolidated Net Income for purposes of the preceding sub-clause (i) to the extent that it is (at the Parent's option) included under this sub-clause (iv); and

(v) the amount of the cash and the fair market value of property or assets or of marketable securities received by the Parent or any of its Restricted Subsidiaries subsequent to the Closing Date in connection with:

(A) the sale or other disposition (other than to the Parent or a Restricted Subsidiary or an employee stock ownership plan or trust established by the Parent or any Subsidiary of the

Parent for the benefit of its employees to the extent funded by the Parent or any Restricted Subsidiary) of Capital Stock of an Unrestricted Subsidiary; and

(B) any dividend or distribution made by an Unrestricted Subsidiary or Affiliate to the Parent or a Restricted Subsidiary;

provided, however, that no amount will be included in Consolidated Net Income for purposes of the preceding sub-clause (i) to the extent that it is (at the Parent's option) included under this sub-clause (v).

The fair market value of property or assets other than cash covered by the preceding paragraph shall be the fair market value thereof as determined in good faith by the Board of Directors or an Officer of the Parent. The fair market value of any cash Restricted Payment shall be its face amount.

The foregoing provisions will not prohibit any of the following (collectively, "*Permitted Payments*"):

(1) any Restricted Payment made in exchange (including any such exchange pursuant to the exercise of a conversion right or privilege in connection with which cash is paid in lieu of the issuance of fractional shares) for, or out of the proceeds of the substantially concurrent sale of, Capital Stock of the Parent (other than Disqualified Stock or Designated Preference Shares), Subordinated Shareholder Funding or a substantially concurrent contribution to the equity (other than through the Equity Contribution, issuance of Disqualified Stock or Designated Preference Shares or through an Excluded Contribution) of the Parent; *provided, however*, that to the extent so applied, the Net Cash Proceeds, or fair market value (as determined in accordance with the immediately preceding paragraph and the immediately succeeding paragraph) of property or assets or of marketable securities, from such sale of Capital Stock, Subordinated Shareholder Funding or such contribution will be excluded from sub-clause (c)(ii) of the second preceding paragraph;

(2) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Indebtedness made in exchange for, or out of the proceeds of the substantially concurrent Incurrence of Refinancing Indebtedness permitted to be Incurred pursuant to the covenant described under "*—Limitation on Indebtedness;*"

(3) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Preferred Stock of the Parent or a Restricted Subsidiary made in exchange for or out of the proceeds of the substantially concurrent sale of Preferred Stock of the Parent or a Restricted Subsidiary, as the case may be, that, in each case, is permitted to be Incurred pursuant to the covenant described under "*—Limitation on Indebtedness,*" and that in each case, constitutes Refinancing Indebtedness;

(4) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Indebtedness:

(a) from Net Available Cash to the extent permitted by the covenant described under "*—Limitation on Sales of Assets and Subsidiary Stock,*" but only if the Parent shall have first complied with the terms of the covenant described under "*—Limitation on Sales of Assets and Subsidiary Stock*" and purchased all Notes validly tendered pursuant to any offer to repurchase all the Notes required thereby, prior to purchasing, repurchasing, redeeming, defeasing or otherwise acquiring or retiring such Subordinated Indebtedness and at a purchase price not greater than 100% of the principal amount of such Subordinated Indebtedness plus accrued and unpaid interest; or

(b) to the extent required by the agreement governing such Subordinated Indebtedness, following the occurrence of a Change of Control (or other similar event described therein as a "*change of control*"), but only (i) if the Parent shall have first complied with the terms of the covenant described under "*—Change of Control,*" if required, and purchased all Notes validly tendered pursuant to the offer to repurchase all the Notes required thereby, prior to purchasing, repurchasing, redeeming, defeasing or otherwise acquiring or retiring such Subordinated Indebtedness and (ii) at a purchase price not greater than 101% of the principal amount of such Subordinated Indebtedness plus accrued and unpaid interest (together with any applicable prepayment or redemption premium); or

(c) (i) consisting of Acquired Indebtedness and (ii) at a purchase price not greater than 100% of the principal amount of such Subordinated Indebtedness plus accrued and unpaid interest (together with any applicable prepayment or redemption premium);

(5) (a) any dividends paid within 60 days after the date of declaration if at such date of declaration such dividend would have complied with this covenant, and (b) any payments associated with the Transactions;

(6) the purchase, repurchase, redemption, defeasance or other acquisition, cancellation or retirement for value of Capital Stock of the Parent, any Restricted Subsidiary or any Holding Entity (including any options, warrants or other rights in respect thereof) and loans, advances, dividends or distributions by the Parent to any Holding Entity or any entity formed for the purpose of investing in Capital Stock of the Parent or any Holding Entity to permit any Holding Entity or such entity to purchase, repurchase, redeem, defease or otherwise acquire, cancel or retire for value Capital Stock of the Parent, any Restricted Subsidiary or any Holding Entity (including any options, warrants or other rights in respect thereof), or payments to purchase, repurchase, redeem, defease or otherwise acquire, cancel or retire for value Capital Stock of the Parent, any Restricted Subsidiary or any Holding Entity (including any options, warrants or other rights in respect thereof), in each case from Management Investors; *provided* that such payments, loans, advances, dividends or distributions do not exceed an amount (net of repayments of any such loans or advances) equal to (A) £5.0 million plus (B) £2.0 million multiplied by the number of calendar years that have commenced since the Closing Date plus (C) the Net Cash Proceeds received by the Parent or its Restricted Subsidiaries since the Closing Date (including through receipt of proceeds from the issuance or sale of its Capital Stock or Subordinated Shareholder Funding to a Holding Entity) from, or as a contribution to the equity (in each case under this sub-clause (C), other than through the issuance of Disqualified Stock or Designated Preference Shares) of the Parent from, the issuance or sale to Management Investors of Capital Stock (including any options, warrants or other rights in respect thereof), to the extent such Net Cash Proceeds are not included in any calculation under sub-clause (c)(ii) of the first paragraph of this covenant;

(7) the declaration and payment of dividends to holders of any class or series of Disqualified Stock, or of any Preferred Stock of a Restricted Subsidiary, Incurred in accordance with the terms of the covenant described under "*—Limitation on Indebtedness;*"

(8) purchases, repurchases, redemptions, defeasances or other acquisitions or retirements of Capital Stock deemed to occur upon the exercise of stock options, warrants or other rights in respect thereof if such Capital Stock represents a portion of the exercise price thereof;

(9) dividends, loans, advances or distributions to any Holding Entity or any Affiliates or other payments by the Parent or any Restricted Subsidiary in amounts equal to (without duplication):

 (a) the amounts required for any Holding Entity to pay any Parent Expenses or any Related Taxes; or

 (b) amounts constituting or to be used for purposes of making payments (i) in relation to the Transactions (including without limitation any fees or expenses) or (ii) to the extent specified in clauses (2), (3), (5), (7), (11), (12) and (13) of the second paragraph under "*—Limitation on Affiliate Transactions;*"

(10) so long as no Default or Event of Default has occurred and is continuing (or would result therefrom), the declaration and payment by the Parent of, or loans, advances, dividends or distributions to any Holding Entity to pay, dividends on the common stock or common equity interests of the Parent or any Holding Entity following a Public Offering of such common stock or common equity interests, in an amount not to exceed in any trading year the greater of (a) 6% of the Net Cash Proceeds received by the Parent from such Public Offering or contributed to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares or through the Equity Contribution or an Excluded Contribution) of the Parent or loaned or contributed as Subordinated Shareholder Funding to the Parent, and (b) following the Initial Public Offering, 8% of the Market Capitalization;

(11) so long as no Default or Event of Default has occurred and is continuing (or would result from) (a) Restricted Payments (including loans or advances) in an aggregate amount outstanding at any time not to exceed the greater of £47.0 million or 10.0% of Consolidated EBITDA, and (b) any Restricted Payment, *provided* that the Consolidated Leverage Ratio on a pro forma basis after giving effect to any such Restricted Payment does not exceed 5.25 to 1.0; *provided* that if an Investment is made pursuant to this clause (11) in a Person that is not a Restricted Subsidiary and such Person subsequently becomes or is subsequently designated a Restricted Subsidiary pursuant to the terms of the Indenture, such Investment shall thereafter be deemed to have been made pursuant to paragraphs (1) or (2) of the definition of "*Permitted Investment*" and not this clause (11);

(12) payments by the Parent, or loans, advances, dividends or distributions to any Holding Entity to make payments, to holders of Capital Stock of the Parent or any Holding Entity in lieu of the issuance of fractional shares of such Capital Stock; *provided, however*, that any such payment, loan, advance, dividend or distribution shall not be for the purpose of evading any limitation of this covenant or

otherwise to facilitate any dividend or other return of capital to the holders of such Capital Stock (as determined in good faith by the Board of Directors or an Officer of the Parent);

(13) Restricted Payments in an aggregate amount outstanding at any time not to exceed the fair market value of Excluded Contributions, or consisting of non-cash Excluded Contributions, or Investments to the extent made in exchange for or using as consideration Investments previously made under this clause (13); *provided* that, the amount of Excluded Contributions shall not include any amount that is also an Equity Contribution;

(14) (i) the declaration and payment of dividends to holders of any class or series of Designated Preference Shares of the Parent issued after the Closing Date; and (ii) the declaration and payment of dividends to any Holding Entity or any Affiliate thereof, the proceeds of which will be used to fund the payment of dividends to holders of any class or series of Designated Preference Shares of such Holding Entity or Affiliate issued after the Closing Date; *provided, however*, that, in the case of sub-clauses (i) and (ii), the amount of all dividends declared or paid pursuant to this clause (14) shall not exceed the Net Cash Proceeds received by the Parent or the aggregate amount contributed in cash to the equity (other than through the issuance of Disqualified Stock or an Excluded Contribution or, in the case of Designated Preference Shares by a Holding Entity or an Affiliate the issuance of Designated Preference Shares) of the Parent or loaned or contributed as Subordinated Shareholder Funding to the Parent, from the issuance or sale of such Designated Preference Shares;

(15) dividends or other distributions of Capital Stock, Indebtedness or other securities of Unrestricted Subsidiaries; and

(16) payment of any Receivables Fees and purchases of Receivables Assets pursuant to a Receivables Repurchase Obligation in connection with a Qualified Receivables Financing.

The amount of all Restricted Payments (other than cash) shall be the fair market value on the date of such Restricted Payment of the asset(s) or securities proposed to be paid, transferred or issued by the Parent or such Restricted Subsidiary, as the case may be, pursuant to such Restricted Payment.

Limitation on Liens

The Parent will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create, Incur or suffer to exist any Lien upon any of its property or assets (including Capital Stock of a Restricted Subsidiary), whether owned on the Closing Date or acquired after that date, or any interest therein or any income or profits therefrom, which Lien is securing any Indebtedness (such Lien, the "*Initial Lien*"), except (a) in the case of any property or asset that does not constitute Collateral, (1) Permitted Liens or (2) Liens on property or assets that are not Permitted Liens if the Notes (or a Note Guarantee in the case of Liens of a Guarantor) are secured equally and ratably with, or prior to, in the case of Liens with respect to Subordinated Indebtedness, the Indebtedness secured by such Initial Lien for so long as such Indebtedness is so secured (*provided* that a Lien to secure Indebtedness pursuant to clauses (1)(i) or (6) of such second paragraph of the covenant described under "*—Limitation on Indebtedness*" may have priority not materially less favorable to the Holders than that accorded to the Revolving Facilities under the Intercreditor Agreement), and (b) in the case of any property or assets that constitute Collateral, Permitted Collateral Liens.

Any such Lien created in favor of the Notes pursuant to sub-clause (a)(2) of the preceding paragraph will be automatically and unconditionally released and discharged upon (i) the release and discharge of the Initial Lien to which it relates and (ii) otherwise as set forth under "*Security—Release of Liens.*"

With respect to any Lien securing Indebtedness that was permitted to secure such Indebtedness at the time of the Incurrence of such Indebtedness, such Lien shall also be permitted to secure any Increased Amount of such Indebtedness. The "*Increased Amount*" of any Indebtedness shall mean any increase in the amount of such Indebtedness in connection with any accrual of interest, the accretion of accreted value, the amortization of original issue discount, the payment of interest in the form of additional Indebtedness with the same terms, accretion of original issue discount or liquidation preference and increases in the amount of Indebtedness outstanding solely as a result of fluctuations in the exchange rate of currencies or increase in the value of property securing Indebtedness.

Limitation on Restrictions on Distributions from Restricted Subsidiaries

The Parent will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or consensual restriction on the ability of any Restricted Subsidiary to:

(A) pay dividends or make any other distributions in cash or otherwise on its Capital Stock to the Parent or the Issuer or pay any Indebtedness or other obligations owed to the Parent or the Issuer;

(B) make any loans or advances to the Parent or the Issuer; or

(C) sell, lease or transfer any of its property or assets to the Parent or the Issuer;

provided that (x) the priority of any Preferred Stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on common stock and (y) the subordination of (including the application of any standstill requirements to) loans or advances made to the Parent or any Restricted Subsidiary to other Indebtedness Incurred by the Parent or any Restricted Subsidiary shall not be deemed to constitute such an encumbrance or restriction.

The provisions of the preceding paragraph will not prohibit:

(1) any encumbrance or restriction pursuant to (a) any Credit Facility (or any guarantee or security granted in connection therewith), including the Second Lien Facility Agreement, the Senior Term Facilities Agreement and the Revolving Facilities Agreement, (b) the Indenture, the Notes, the Note Guarantees or the Proceeds Loan Agreements, (c) the Intercreditor Agreement, any Additional Intercreditor Agreement, the Transaction Security Documents, any Unique Securitized Notes, any Unique Liquidity Facility or any guarantee or security granted in connection with any Unique Securitized Notes or any Unique Liquidity Facility or (d) any other agreement or instrument in effect at or entered into on the Closing Date, including, in each case, any amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings, *provided* that the amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings are not materially more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in those agreements referred to in sub-clauses (a), (b), (c) and (d) above, as applicable (as determined in good faith by the Board of Directors or an Officer of the Parent);

(2) any encumbrance or restriction pursuant to an agreement or instrument of a Person or relating to any Capital Stock or Indebtedness of a Person, entered into on or before the date on which such Person was acquired by or merged, consolidated or otherwise combined with or into the Parent or any Restricted Subsidiary, or was designated as a Restricted Subsidiary, or on which such agreement or instrument is assumed by the Parent or any Restricted Subsidiary in connection with an acquisition of assets (other than Capital Stock or Indebtedness Incurred as consideration in, or to provide all or any portion of the funds utilized to consummate, the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary or was acquired by the Parent or was merged, consolidated or otherwise combined with or into the Parent or any Restricted Subsidiary entered into or in connection with such transaction) and outstanding on such date; *provided* that, for the purposes of this clause (2), if another Person is the Successor Company, any Subsidiary thereof or agreement or instrument of such Person or any such Subsidiary shall be deemed acquired or assumed by the Parent or any Restricted Subsidiary when such Person becomes the Successor Company;

(3) any encumbrance or restriction pursuant to an agreement or instrument effecting a refinancing of Indebtedness Incurred pursuant to, or that otherwise refinances, an agreement or instrument referred to in clause (1) or (2) of this paragraph or this clause (3) (an "*Initial Agreement*") or contained in any amendment, supplement or other modification to an agreement referred to in clause (1) or (2) of this paragraph or this clause (3); *provided, however*, that the encumbrances and restrictions with respect to such Restricted Subsidiary contained in any such agreement or instrument are no less favorable in any material respect to the Holders taken as a whole than the encumbrances and restrictions contained in the Initial Agreement or Initial Agreements to which such refinancing or amendment, supplement or other modification relates (as determined in good faith by the Board of Directors or an Officer of the Parent) or that the Board of Directors or an Officer of the Parent determines when such Indebtedness is Incurred that such encumbrances or restrictions will not adversely affect, in any material respect, the Parent's ability to make principal or interest payments on the Notes;

(4) any encumbrance or restriction:

    (a) that restricts in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease, license or similar contract, or the assignment or transfer of any lease, license or other contract;

    (b) contained in mortgages, pledges, charges or other security agreements permitted under the Indenture or securing Indebtedness of the Parent or a Restricted Subsidiary permitted under the

Indenture to the extent such encumbrances or restrictions restrict the transfer of the property or assets subject to such mortgages, pledges, charges or other security agreements; or

(c) pursuant to customary provisions restricting dispositions of real property interests set forth in any reciprocal easement agreements of the Parent or any Restricted Subsidiary;

(5) any encumbrance or restriction pursuant to Purchase Money Obligations and Capitalized Lease Obligations permitted under the Indenture, in each case, that impose encumbrances or restrictions on the property so acquired or any encumbrance or restriction pursuant to a joint venture agreement that imposes restrictions on the transfer of the assets of the joint venture;

(6) any encumbrance or restriction with respect to a Restricted Subsidiary (or any of its property or assets) imposed pursuant to an agreement entered into for the direct or indirect sale or disposition to a Person of all or substantially all the Capital Stock or assets of such Restricted Subsidiary (or the property or assets that are subject to such restriction) pending the closing of such sale or disposition;

(7) customary provisions in leases, licenses, joint venture agreements, and other similar agreements and instruments entered into in the ordinary course of business or consistent with industry practices;

(8) encumbrances or restrictions arising or existing by reason of applicable law or any applicable rule, regulation or order (including encumbrances or restrictions on making distributions in cash or Cash Equivalents as a dividend or otherwise that arise or exist by reason of applicable law or any applicable rule, regulation or order) or encumbrances or restrictions required by any regulatory authority;

(9) any encumbrance or restriction on cash or other deposits or net worth imposed by customers, suppliers or landlords under agreements entered into in the ordinary course of business;

(10) any encumbrance or restriction pursuant to Hedging Agreements;

(11) any encumbrance or restriction arising pursuant to an agreement or instrument relating to any Indebtedness permitted to be Incurred subsequent to the Closing Date pursuant to the provisions of the covenant described under "*—Limitation on Indebtedness*" if the encumbrances and restrictions contained in any such agreement or instrument taken as a whole are not materially less favorable to the Holders than (i) the encumbrances and restrictions contained in the Revolving Facilities Agreement, together with the security documents associated therewith as in effect on the Acquisition Completion Date or (ii) in comparable financings (as determined in good faith by the Board of Directors or an Officer of the Parent) and where, in the case of clause (ii), the Parent determines at the time such Indebtedness is Incurred that such encumbrances or restrictions will not adversely affect, in any material respect, the Issuer's ability to make principal or interest payments on the Notes;

(12) any encumbrance or restriction existing by reason of any Lien permitted by the covenant described under "*—Limitation on Liens;*" or

(13) restrictions effected in connection with a Qualified Receivables Financing that, in the good faith determination of the Board of Directors or an Officer of the Parent, are necessary or advisable to effect such Qualified Receivables Financing.

Limitation on Sales of Assets and Subsidiary Stock

The Parent will not, and will not permit any of its Restricted Subsidiaries to, make any Asset Disposition unless:

(1) the Parent or such Restricted Subsidiary, as the case may be, receives consideration (including by way of relief from, or by any other Person assuming responsibility for, any liabilities, contingent or otherwise) at least equal to the fair market value (such fair market value to be determined on the date of contractually agreeing to such Asset Disposition), as determined in good faith by the Board of Directors or an Officer of the Parent, of the shares and assets subject to such Asset Disposition (including, for the avoidance of doubt, if such Asset Disposition is a Permitted Asset Swap); and

(2) in any such Asset Disposition, or series of related Asset Dispositions (except to the extent the Asset Disposition is a Permitted Asset Swap), at least 75% of the consideration from such Asset Disposition (excluding any consideration by way of relief from, or by any other Person assuming responsibility for, any liabilities, contingent or otherwise, other than Indebtedness) received by the Parent or such Restricted Subsidiary, as the case may be, is in the form of cash, Cash Equivalents or Temporary Cash Investments.

Within 365 days from the later of (A) the date of such Asset Disposition and (B) the receipt of such Net Available Cash from an Asset Disposition, the Parent or such Restricted Subsidiary, as the case may be, may apply an amount equal to such Net Available Cash at the option of the Parent or such Restricted Subsidiary:

(a) (1) to prepay, repay, purchase or redeem any Senior Secured Indebtedness (including Indebtedness Incurred under sub-clause (1)(i) of the second paragraph of the covenant described under "*—Limitation on Indebtedness*" or any Refinancing Indebtedness in respect thereof); *provided, however*, that in connection with any prepayment, repayment, purchase or redemption of Indebtedness pursuant to this sub-clause (1) (except in the case of any revolving Indebtedness, including but not limited to the Revolving Facilities Agreement), the Parent or such Restricted Subsidiary will retire such Indebtedness and will cause the related commitment to be permanently reduced in an amount equal to the principal amount so prepaid, repaid, purchased or redeemed; *provided, further,* that in the case of the prepayment, repayment, purchase or redemption of Senior Secured Indebtedness other than the Revolving Facilities, the Issuer shall prepay, repay, purchase or redeem the Notes on a pro rata basis with such other Senior Secured Indebtedness; (2) to prepay, repay, purchase or redeem any Indebtedness of a Restricted Subsidiary that is not the Issuer or a Guarantor (other than Indebtedness owed to the Parent or any Restricted Subsidiary); or (3) in the case of an Asset Disposition that does not constitute Collateral, to prepay, repay, purchase or redeem (I) Pari Passu Indebtedness (other than Indebtedness owed to the Parent or a Restricted Subsidiary) (i) at a price of no more than 100% of the principal amount of such Pari Passu Indebtedness plus accrued and unpaid interest to the date of such prepayment, repayment, purchase or redemption, (ii) through repurchase of such Pari Passu Indebtedness in the open market or (iii) pursuant to the contractual optional redemption provisions applicable thereto or (II) Senior Indebtedness (other than Indebtedness owed to the Parent or a Restricted Subsidiary) (i) at a price of no more than 100% of the principal amount of such Senior Indebtedness plus accrued and unpaid interest to the date of such prepayment, repayment, purchase or redemption, (ii) through repurchase of such Senior Indebtedness in the open market or (iii) pursuant to the contractual optional redemption provisions applicable thereto; *provided* that in the case of the prepayment, repayment, purchase or redemption of Pari Passu Indebtedness or Senior Indebtedness (in each case, other than the Notes) pursuant to sub-clause (3), the Issuer shall prepay, repay, purchase or redeem the Notes on a pro rata basis with such other Indebtedness;

(b) to the extent the Parent or such Restricted Subsidiary elects, to invest in or commit to invest in Additional Assets (including by means of an investment in Additional Assets by a Restricted Subsidiary with Net Available Cash received by the Parent or a Restricted Subsidiary) within 365 days from the later of (i) the date of such Asset Disposition and (ii) the receipt of such Net Available Cash; *provided, however*, that any such reinvestment in Additional Assets made pursuant to a definitive binding agreement or a commitment approved by the Board of Directors or an Officer of the Parent that is executed or approved within such time will satisfy this requirement, so long as such investment is consummated within 180 days of such 365th day;

(c) to make a capital expenditure pursuant to a definitive binding agreement or a commitment approved by the Board of Directors or an Officer of the Parent; *provided, however*, that any such capital expenditure made that is executed or approved within such time will only satisfy this requirement so long as such investment is consummated within 180 days of such 365th day;

(d) to make Restricted Payments pursuant to clause (11) of the third paragraph of the covenant described under "*—Limitation on Restricted Payment"* with the Net Available Cash from Asset Dispositions; or

(e) any combination of the foregoing;

provided that, pending the final application of any such Net Available Cash in accordance with clause (a), (b), (c), (d) or (e) above, the Parent and its Restricted Subsidiaries may temporarily reduce Indebtedness or otherwise invest such Net Available Cash in any manner not prohibited by the Indenture.

If an amount less than the Net Available Cash from Asset Dispositions is applied or invested or committed to be applied or invested, or offered to be applied or invested, as provided in the preceding paragraph, an amount equal to the difference will be deemed to constitute "*Excess Proceeds*" under the Indenture. On the 366th day (or the 546th day, in the case of any Net Available Cash committed to be used pursuant to a definitive binding agreement or commitment approved by the Board of Directors or an Officer of the Parent pursuant to clauses (b) or (c) of the second paragraph of this covenant) after the later of (A) the date of such Asset Disposition and (B) the receipt of such Net Available Cash from an Asset Disposition, or at such earlier date that the Parent elects, if the aggregate amount of "*Excess Proceeds*" under the Indenture exceeds the greater of £25.0 million and 5.1% of Consolidated EBITDA, the Parent will be required to make an offer (or procure an offer is made) ("*Asset Disposition Offer*") to all Holders of Notes issued under the Indenture and, to the extent the Parent so elects, to all holders of other outstanding Pari Passu Indebtedness, to purchase the maximum aggregate principal amount of Notes and any such Pari Passu Indebtedness to which the Asset Disposition Offer applies that may be purchased out of the "*Excess Proceeds,*" at an offer price in respect of the Notes in an amount equal to (and, in the case of any Pari Passu Indebtedness, an offer price of no more than) 100% of the principal amount of such Notes and 100% of the principal amount of such Pari Passu Indebtedness, in each case, plus accrued and unpaid interest, if any, to, but excluding, the date of purchase, in accordance with the procedures set forth in the Indenture or the agreements governing the Pari Passu Indebtedness, as applicable.

To the extent that the aggregate principal amount of Notes and Pari Passu Indebtedness so validly tendered and not properly withdrawn pursuant to an Asset Disposition Offer is less than the "*Excess Proceeds,*" the Parent may use any remaining "*Excess Proceeds*" for general corporate purposes, subject to the other covenants contained in the Indenture. If the aggregate principal amount of the Notes surrendered in any Asset Disposition Offer by Holders and other Pari Passu Indebtedness surrendered by holders or lenders, collectively, exceeds the amount of "*Excess Proceeds,*" the "*Excess Proceeds*" shall be allocated among the Notes and Pari Passu Indebtedness to be purchased on a *pro rata* basis or by use of a pool factor on the basis of the aggregate principal amount of tendered Notes and Pari Passu Indebtedness, or by such other method as (i) the Trustee and (ii) the trustee, agent or similar representative of such Pari Passu Indebtedness, after consultation with the Parent, deem fair and appropriate (and in such manner as complies with applicable legal, depositary and exchange requirements). For the purposes of calculating the aggregate principal amount of any such Indebtedness not denominated in pound sterling or euro, as the case may be based on the denomination of the applicable Notes, such Indebtedness shall be calculated by converting any such aggregate principal amounts into their Sterling Equivalent or Euro Equivalent, as the case may be, determined as of a date selected by the Parent that is within the Asset Disposition Offer Period (as defined herein). Upon completion of any Asset Disposition Offer, the amount of "*Excess Proceeds*" shall be reset at zero.

Any Net Available Cash payable in respect of the Notes pursuant to this covenant will be allocated between the Floating Rate Notes and the Fixed Rate Notes in proportion to the respective aggregate principal amounts of Floating Rate Notes and the Fixed Rate Notes validly tendered and not withdrawn.

To the extent that any portion of Net Available Cash payable in respect of the Notes is denominated in a currency other than the currency in which the relevant Notes are denominated, the amount thereof payable in respect of such Notes shall not exceed the net amount of funds in the currency in which the relevant Notes are denominated that is actually received upon converting such portion of Net Available Cash into such currency.

The Asset Disposition Offer, in so far as it relates to the Notes, will remain open for a period of not less than 20 Business Days following its commencement (the "*Asset Disposition Offer Period*"). No later than five Business Days after the termination of the Asset Disposition Offer Period (the "*Asset Disposition Purchase Date*"), the Parent will purchase (or procure the purchase of) the aggregate principal amount of Notes and, to the extent they so elect, any Pari Passu Indebtedness required to be purchased pursuant to this covenant (the "*Asset Disposition Offer Amount*") or, if less than the Asset Disposition Offer Amount has been so validly tendered, all Notes and Pari Passu Indebtedness validly tendered in response to the Asset Disposition Offer.

On or before the Asset Disposition Purchase Date, the Parent will, to the extent lawful, accept for payment, on a *pro rata* basis to the extent necessary, the Asset Disposition Offer Amount of Notes and Pari Passu Indebtedness or portions of Notes and Pari Passu Indebtedness so validly tendered and not properly withdrawn pursuant to the Asset Disposition Offer, or if less than the Asset Disposition Offer Amount has been validly tendered and not properly withdrawn, all Notes and Pari Passu Indebtedness so validly tendered and not properly withdrawn and, in the case of the Notes, in minimum denominations of £100,000 or €100,000 and in integral multiples of £1,000 or €1,000 in excess thereof, as the case may be. The Parent will deliver to the Trustee an Officer's Certificate stating that such Notes or portions thereof were accepted for payment in accordance with the terms of this covenant. The Parent or the Paying Agent, as the case may be, will promptly (but in any case not later than five Business Days after termination of the Asset Disposition Offer Period) mail or deliver (or procure the mail or delivery) to each tendering Holder an amount equal to the purchase price of the Notes so validly tendered and not properly withdrawn by such Holder, and accepted for purchase, and the Issuer will promptly issue a new Note (or amend the

Global Note), and the Trustee, upon delivery of an Officer's Certificate from the Issuer, will (via an authenticating agent) authenticate and mail or deliver (or cause to be transferred by book entry) such new Note to such Holder, in an aggregate principal amount equal to any unpurchased portion of the Note surrendered; *provided* that each such new Note will be in an aggregate principal amount with a minimum denomination of £100,000 or €100,000 or in integral multiples of £1,000 or €1,000 in excess thereof, as the case may be. Any Note not so accepted will be promptly mailed or delivered (or transferred by book entry) by the Parent or the Issuer to the Holder thereof.

For the purposes of clause (2) of the first paragraph of this covenant, the following will be deemed to be cash:

(1) the assumption by the transferee of Indebtedness of the Parent or Indebtedness of a Restricted Subsidiary (other than Subordinated Indebtedness of the Issuer or a Guarantor) and the release of the Parent or such Restricted Subsidiary from all liability on such Indebtedness in connection with such Asset Disposition;

(2) securities, notes or other obligations received by the Parent or any Restricted Subsidiary from the transferee that are converted by the Parent or such Restricted Subsidiary into cash or Cash Equivalents within 180 days following the closing of such Asset Disposition;

(3) Indebtedness of any Restricted Subsidiary that is no longer a Restricted Subsidiary as a result of such Asset Disposition, to the extent that the Parent and each other Restricted Subsidiary are released from any Guarantee of payment of such Indebtedness in connection with such Asset Disposition;

(4) consideration consisting of Indebtedness of the Parent or any Restricted Subsidiary (other than Subordinated Indebtedness of the Issuer or a Guarantor) received after the Closing Date from Persons who are not the Parent or any Restricted Subsidiary; and

(5) any Designated Non-Cash Consideration received by the Parent or any Restricted Subsidiary in such Asset Dispositions having an aggregate fair market value, taken together with all other Designated Non-Cash Consideration received pursuant to this covenant that is at that time outstanding, not to exceed the greater of £30.0 million and 6.4% of Consolidated EBITDA (with the fair market value of each item of Designated Non-Cash Consideration being measured at the time received and without giving effect to subsequent changes in value).

The Parent will comply (or procure compliance), to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes pursuant to the Indenture. To the extent that the provisions of any securities laws or regulations (or exchange rules) conflict with provisions of this covenant, the Parent will comply (or procure compliance) with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of any conflict.

Maintenance of Listing

The Parent will use its commercially reasonable efforts to obtain and maintain the listing of the Notes on the Official List of the Exchange for so long as such Notes are outstanding; *provided* that if the Parent is unable to obtain admission to such listing or if at any time the Parent determines that it will not maintain such listing, it will obtain and thereafter use its commercially reasonable efforts to maintain a listing of such Notes on another stock exchange deemed appropriate by the Board of Directors or an Officer of the Parent.

Limitation on Affiliate Transactions

The Parent will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, enter into or conduct any transaction or series of related transactions (including the purchase, sale, lease or exchange of any property or the rendering of any service, and treating all disposals of sites to an Affiliate cumulatively as one related transaction) with any Affiliate of the Parent (such transaction or series of related transactions, an "*Affiliate Transaction*") involving aggregate value in excess of the greater of £10.0 million and 2.2% of Consolidated EBITDA unless:

(1) the terms of such Affiliate Transaction taken as a whole are not materially less favorable to the Parent or such Restricted Subsidiary, as the case may be, than those that could be obtained in a comparable transaction at the time of such transaction or the execution of the agreement providing for such transaction in arm's length dealings with a Person who is not such an Affiliate; and

(2) in the event such Affiliate Transaction involves an aggregate value in excess of the greater of £20.0 million and 4.4% of Consolidated EBITDA, the terms of such transaction or series of related transactions have been approved by a majority of the members of the Board of Directors of the Parent resolving that such transaction complies with clause (1) above.

The provisions of the preceding paragraph will not apply to:

(1) any Restricted Payment permitted to be made pursuant to the covenant described under "*—Limitation on Restricted Payments,*" any Permitted Payments (other than pursuant to sub-clause (9)(b)(ii) of the third paragraph of the covenant described under "*—Limitation on Restricted Payments*") or any Permitted Investment;

(2) any issuance or sale of Capital Stock, options, other equity-related interests or other securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, or entering into, or maintenance of, any employment, consulting, collective bargaining or benefit plan, program, agreement or arrangement, related trust or other similar agreement and other compensation arrangements, options, warrants or other rights to purchase Capital Stock of the Parent, any Restricted Subsidiary or any Holding Entity, restricted stock plans, long-term incentive plans, stock appreciation rights plans, participation plans or similar employee benefits or consultants' plans (including valuation, health, insurance, deferred compensation, severance, retirement, savings or similar plans, programs or arrangements) or indemnities provided on behalf of officers, employees, directors or consultants approved by the Board of Directors of the Parent, in each case in the ordinary course of business;

(3) any Management Advances and any waiver or transaction with respect thereto and any transaction pursuant to or in connection with an MEP, incentive scheme, deferred compensation or similar arrangement (including any MEP Payment);

(4) any transaction between or among the Parent and any Restricted Subsidiary (or entity that becomes a Restricted Subsidiary as a result of such transaction), or between or among Restricted Subsidiaries or any Receivables Subsidiary;

(5) the payment of reasonable fees and reimbursement of expenses to, and customary indemnities (including under customary insurance policies) and employee benefit and pension expenses provided on behalf of, directors, officers, consultants or employees of the Parent, any Restricted Subsidiary or any Holding Entity (whether directly or indirectly and including through any Person owned or controlled by any of such directors, officers or employees);

(6) the Transactions and the entry into and performance of obligations of the Parent or any of its Restricted Subsidiaries under the terms of any transaction arising out of, and any payments pursuant to or for purposes of funding, any agreement or instrument in effect as of or on the Closing Date, as these agreements and instruments may be amended, modified, supplemented, extended, renewed, replaced or refinanced from time to time in accordance with the other terms of this covenant or to the extent not materially more disadvantageous to the Holders taken as a whole in the good faith judgment of an Officer of the Parent and the entry into and performance of any registration rights or other listing agreement in connection with any Public Offering;

(7) the execution, delivery and performance of any Tax Sharing Agreement (including any transactions which are entered into with any Holding Entity or Unrestricted Subsidiary in order to satisfy the obligations arising under any Tax Sharing Agreement) and the formation and maintenance of any consolidated group for tax, accounting or cash pooling or management purposes in the ordinary course of business;

(8) any payments arising on the exercise of any put or call options (or any equivalent right or obligation) in relation to any Associate or transactions with customers, clients, landlords, suppliers or purchasers or sellers of goods or services, which, in each case, are in the ordinary course of business and are either fair to the Parent or the relevant Restricted Subsidiary in the reasonable determination of the Board of Directors or an Officer of the Parent or the relevant Restricted Subsidiary or are on terms no less favorable than those that could reasonably have been obtained at such time from an unaffiliated party;

(9) any transaction in the ordinary course of business between or among the Parent or any Restricted Subsidiary and any Affiliate of the Parent or an Associate or similar entity that would constitute an Affiliate Transaction solely because the Parent or a Restricted Subsidiary or any Affiliate of the Parent or a Restricted Subsidiary or any Affiliate of any Permitted Holder owns an equity interest in or otherwise controls such Affiliate, Associate or similar entity;

(10) (a) issuances or sales of Capital Stock (other than Disqualified Stock or Designated Preference Shares) of the Parent or options, warrants or other rights to acquire such Capital Stock or Subordinated Shareholder Funding; *provided* that the interest rate and other financial terms of such Subordinated Shareholder Funding are approved by a majority of the members of the Board of Directors or an Officer of the Parent in their reasonable determination, (b) any amendment, waiver or other transaction with respect to any Subordinated Shareholder Funding in compliance with the other provisions of the Indenture, the Intercreditor Agreement and any Additional Intercreditor Agreement, as applicable and (c) directors' qualifying shares and shares issued to foreign nationals as required by applicable law;

(11) without duplication in respect of payments made pursuant to clause (12) below, (a) payments by the Parent or any Restricted Subsidiary to any Permitted Holder (whether directly or indirectly, including through any Holding Entity) of annual management, consulting, monitoring or advisory fees and related expenses in an aggregate amount not to exceed the greater of £4.0 million and 0.9% of Consolidated EBITDA in each twelve month period commencing on the Closing Date, and (b) customary payments by the Parent or any Restricted Subsidiary to any Permitted Holder (whether directly or indirectly, including through any Holding Entity) for financial advisory, consulting, financing, underwriting or placement services or in respect of other investment banking activities, including in connection with acquisitions or divestitures, which payments in respect of this sub-clause (b) are approved by a majority of the Board of Directors or an Officer of the Parent in good faith;

(12) payment to any Permitted Holder of all reasonable out-of-pocket expenses Incurred by such Permitted Holder in connection with its direct or indirect investment in the Parent and its Subsidiaries;

(13) any transaction effected pursuant to or in connection with a Qualified Receivables Financing; and

(14) any transaction as to which the Parent delivers to the Trustee a written opinion from an Independent Financial Advisor stating that the transaction (a) is fair to the Parent and its Restricted Subsidiaries from a financial point of view, or (b) meets the requirements of clause (1) of the first paragraph of this covenant.

Reports

For so long as any Notes are outstanding, the Parent will provide to the Trustee the following reports:

(1) within 120 days (or, in the case of the first trading year ending after the Acquisition Completion Date, 150 days) after the end of the Parent's trading year, beginning with the first trading year ending after the Acquisition Completion Date, annual reports containing, to the extent applicable, the following information: (a) audited consolidated balance sheets of the Parent as of the end of the two most recent trading years and audited consolidated income statements and statements of cash flow of the Parent for the two most recent trading years, including complete footnotes to such financial statements and the report of the independent auditors on the financial statements; (b) unaudited pro forma income statement information and balance sheet information of the Parent (which, for the avoidance of doubt, shall not include the provision of a full income statement or balance sheet to the extent not reasonably available), together with explanatory footnotes, for any material acquisitions, dispositions or recapitalizations that have occurred since the beginning of the most recently completed trading year (and which have not already been the subject of pro forma information provided by the Parent); (c) an operating and financial review of the audited financial statements, including a discussion of the results of operations, financial condition and liquidity and capital resources of the Parent, and a discussion of material commitments and contingencies and critical accounting policies; (d) a description of the business, management and shareholders of the Parent, all material affiliate transactions and a description of all material contractual arrangements, including material debt instruments; and (e) a description of material risk factors and material recent developments;

(2) within 75 days following the end of the first three trading quarters in each trading year of the Parent (or, in the case of the second and third trading quarters in 2020, 90 days), all quarterly reports of the Parent containing the following information: (a) an unaudited condensed consolidated balance sheet as of the end of such trading quarter and unaudited condensed statements of income and cash flow for the most recently completed trading quarter year-to-date period ending on the unaudited condensed balance sheet date, and the comparable prior year periods, together with condensed footnote disclosure; (b) unaudited pro forma income statement information and balance sheet information of

the Parent (which, for the avoidance of doubt, shall not include the provision of a full income statement or balance sheet to the extent not reasonably available), together with explanatory footnotes, for any material acquisitions, dispositions or recapitalizations that have occurred since the beginning of the relevant trading quarter (and which have not already been the subject of pro forma information provided by the Parent); (c) an operating and financial review of the unaudited financial statements, including a discussion of the results of operations, financial condition and material changes in liquidity and capital resources of the Parent, and a discussion of material changes not in the ordinary course of business in commitments and contingencies since the most recent report; and (d) material recent developments; and

(3) promptly after the occurrence of any material acquisition, disposition, restructuring, merger or similar transaction, or any senior executive officer changes at the Parent or change in auditors of the Parent or any other material event that the Parent announces publicly, a report containing a description of such event.

All financial statement information shall be prepared in accordance with IFRS as in effect on the date of such report or financial statement and on a consistent basis for the periods presented; *provided, however*, that in the reports set forth in clauses (1), (2) and (3) above, in the event of a change in applicable IFRS, earlier periods may be presented on a basis that applied to such periods. Except as provided for below, no report need include separate financial statements for any Subsidiaries of the Parent. At the Parent's election it may also include financial statements of a Holding Entity in lieu of those for the Parent; *provided* that, if the financial statements of a Holding Entity are included in such report, a reasonably detailed description of material differences between the financial statements of the Holding Entity and the Parent shall be included for any period after the Acquisition Completion Date. Following an Initial Public Offering of the Capital Stock of an IPO Entity and/or the listing of such Capital Stock on a recognized stock exchange, the requirements of clauses (1), (2) and (3) above shall be considered to have been fulfilled if the IPO Entity complies with the reporting requirements of such stock exchange.

At any time that any of the Parent's Subsidiaries are Unrestricted Subsidiaries and any such Unrestricted Subsidiary or group of Unrestricted Subsidiaries, if taken together as one Subsidiary, constitutes a Significant Subsidiary of the Parent, then the annual and quarterly financial information required by clauses (1) and (2) of the first paragraph of this covenant shall include either (i) a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, of the financial condition and results of operations of the Parent and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of the Parent or (ii) stand-alone audited or unaudited financial statements, as the case may be, of such Unrestricted Subsidiary or Unrestricted Subsidiaries (as a group or otherwise) together with an unaudited reconciliation to the financial information of the Parent and its Subsidiaries, which reconciliation shall include the following items: revenue, finance costs, profit/loss for the period, cash and cash equivalents, total assets, total liabilities, equity and capital expenditures.

Substantially concurrently with the issuance to the Trustee of the reports specified in clause (1), (2) and (3) of the first paragraph of this covenant, the Parent shall also (a) use its commercially reasonable efforts (i) to post copies of such reports on such password protected website as may be then maintained by the Parent and its Subsidiaries or (ii) otherwise to provide substantially comparable public availability of such reports (as determined by the Board of Directors or an Officer of the Parent in good faith) or (b) to the extent the Board of Directors or an Officer of the Parent determines in good faith that it cannot make such reports available in the manner described in the preceding clause (a) owing to applicable law or after the use of its commercially reasonable efforts, furnish such reports to the Holders and, upon their request, prospective purchasers of the Notes.

The Issuer will also make available copies of all reports required by clauses (1) through (3) of the first paragraph of this covenant, if and so long as the Notes are listed on the Official List of the Exchange, and if and to the extent the rules of the Exchange so require, at the offices of the Listing Agent in Jersey.

In addition, so long as the Notes remain outstanding and during any period during which the Parent is not subject to Section 13 or 15(d) of the Exchange Act nor exempt therefrom pursuant to Rule 12g3-2(b), the Parent shall furnish to the Holders and, upon their request, prospective purchasers of the Notes, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Delivery of any information, documents and reports to the Trustee pursuant to this section is for information purposes and the Trustee's receipt shall not constitute constructive notice of any information contained therein, including the Issuer's compliance with any of its covenants under the Indenture.

Merger and Consolidation

The Issuer and the Parent

Neither the Issuer nor the Parent will consolidate with or merge with or into, or convey, transfer or lease all or substantially all its assets to, any Person, unless (and subject to the other terms of the Indenture):

(1) the resulting, surviving or transferee Person (the "*Successor Company*") (if not the Parent or the Issuer, as applicable) will be a Person organized and existing under the laws of any Permissible Jurisdiction and the Successor Company (if not the Parent or the Issuer, as applicable) will expressly assume (subject in each case to any limitation contemplated by the Agreed Security Principles), (a) by supplemental indenture, executed and delivered to the Trustee, in form reasonably satisfactory to the Trustee, all the obligations of the Parent or the Issuer, as applicable, under the Notes and the Indenture and (b) to the extent required by applicable law to effect such assumption, all obligations of the Parent or the Issuer, as applicable, under the Indenture, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Transaction Security Documents;

(2) immediately after giving effect to such transaction (and treating any Indebtedness that becomes an obligation of the Successor Company or any Subsidiary of the Successor Company as a result of such transaction as having been Incurred by the Successor Company or such Subsidiary at the time of such transaction), no Default or Event of Default shall have occurred and be continuing;

(3) only in case of a transaction involving the Parent, immediately after giving effect to such transaction, either (a) the Successor Company would be permitted to Incur at least an additional £1.00 of Indebtedness pursuant to the first paragraph of the covenant described under "*—Limitation on Indebtedness*" or (b) the Fixed Charge Coverage Ratio for the Parent and its Restricted Subsidiaries for the most recently ended four full trading quarters for which internal financial statements are available immediately preceding the date on which such transaction is consummated would not be lower than it was immediately prior to giving effect to such transaction; and

(4) the Parent shall have delivered to the Trustee an Officer's Certificate that such consolidation, merger or transfer and such supplemental indenture (if any) complies with the Indenture, and that all conditions precedent provided for therein relating to such transaction have been complied with or satisfied, and that the assumption (if any) of obligations under clause (1) above constitutes the legal, valid and binding obligation of the Successor Company. The Trustee shall be entitled to rely conclusively on such Officer's Certificate without independent verification.

Any Indebtedness that becomes an obligation of the Parent or any Restricted Subsidiary (or that is deemed to be Incurred by any Restricted Subsidiary that becomes a Restricted Subsidiary) as a result of any such transaction undertaken in compliance with this covenant, and any Refinancing Indebtedness with respect thereto, shall be deemed to have been Incurred in compliance with the covenant described under "*—Limitation on Indebtedness.*"

For purposes of this covenant, the sale, lease, conveyance, assignment, transfer, or other disposition of all or substantially all of the properties and assets of one or more Subsidiaries of the Parent, which properties and assets, if held by the Parent instead of such Subsidiaries, would constitute all or substantially all of the properties and assets of the Parent on a consolidated basis, shall be deemed to be the transfer of all or substantially all of the properties and assets of the Parent, as the case may be.

The Successor Company will succeed to, and be substituted for, and may exercise every right and power of, the Parent under the Indenture and the Notes but in the case of a lease of all or substantially all its assets, the predecessor company will not be released from its obligations under the Indenture or the Notes.

Notwithstanding the preceding clauses (2) and (3) and the provisions described below under "*—Subsidiary Guarantors*" (which do not apply to transactions referred to in this sentence), (a) any Restricted Subsidiary may consolidate or otherwise combine with, merge into or transfer all or part of its properties and assets to the Parent and (b) any Restricted Subsidiary that is not a Guarantor may consolidate or otherwise combine with, merge into or transfer all or part of its properties and assets to any other Restricted Subsidiary. Notwithstanding the preceding clauses (2) and (3) (which do not apply to the transactions referred to in this sentence), the Parent may consolidate or otherwise combine with or merge into an Affiliate incorporated or organized for the purpose of changing the legal domicile of the Parent, reincorporating the Parent in another jurisdiction, or changing the legal form of the Parent.

There is no precise established definition of the phrase "*substantially all*" under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve "*all or substantially all*" of the property or assets of a Person.

The foregoing provisions (other than the requirements of clause (2) of the first paragraph of this covenant) will not apply to (i) any transactions which constitute an Asset Disposition if the Parent has complied with the covenant described under "*—Limitation on Sales of Assets and Subsidiary Stock*" or (ii) the creation of a new subsidiary as a Restricted Subsidiary.

Subsidiary Guarantors

No Subsidiary Guarantor may (other than a Subsidiary Guarantor whose guarantee is to be released in accordance with the terms of the Indenture, the Intercreditor Agreement and any Additional Intercreditor Agreement):

(1) consolidate with or merge with or into any Person, or

(2) sell, convey, transfer or dispose of, all or substantially all its assets as an entirety or substantially as an entirety, in one transaction or a series of related transactions, to any Person, or

(3) permit any Person to merge with or into such Subsidiary Guarantor, unless

  (A) the other Person is the Parent or any Restricted Subsidiary that is a Guarantor or becomes a Guarantor; or

  (B) (1) either (x) a Guarantor is the continuing Person or (y) the resulting, surviving or transferee Person expressly assumes (in each case, subject to any limitation contemplated by the Agreed Security Principles) all of the obligations of the Guarantor under its Note Guarantee and, to the extent required by applicable law to effect such assumption, the obligations under the Intercreditor Agreement, any Additional Intercreditor Agreement and the Transaction Security Documents to which it is a party, in each case, subject to any limitation contemplated by the Agreed Security Principles; and (2) immediately after giving effect to the transaction, no Default has occurred and is continuing; or

  (C) the transaction constitutes a sale or other disposition (including by way of consolidation or merger) of the Guarantor or the sale or disposition of all or substantially all the assets of the Guarantor (in each case other than to the Parent or a Restricted Subsidiary) otherwise permitted by the Indenture.

Notwithstanding the preceding sub-clause (B) and the provisions described under "*—The Issuer and the Parent*" (which do not apply to transactions referred to in this sentence), (a) any Restricted Subsidiary may consolidate or otherwise combine with, merge into or transfer all or part of its properties and assets to a Subsidiary Guarantor and (b) if there is more than one Subsidiary Guarantor, any Subsidiary Guarantor may consolidate or otherwise combine with, merge into or transfer all or part of their respective properties and assets to any other Subsidiary Guarantor, as the case may be. Notwithstanding the preceding sub-clause (B)(2) (which does not apply to the transactions referred to in this sentence), a Subsidiary Guarantor may consolidate or otherwise combine with or merge into an Affiliate incorporated or organized for the purpose of changing the legal domicile of the Subsidiary Guarantor reincorporating the Subsidiary Guarantor in another jurisdiction, or changing the legal form of the Subsidiary Guarantor, as the case may be.

There is no precise established definition of the phrase "*substantially all*" under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve "*all or substantially all*" of the property or assets of a Person.

Suspension of Covenants on Achievement of Investment Grade Status

If on any date following the Closing Date, the Notes have achieved Investment Grade Status and no Default or Event of Default has occurred and is continuing (a "*Suspension Event*"), then, beginning on that day and continuing until the Reversion Date, the provisions of the Indenture summarized under the following captions will not apply to such Notes: "*—Limitation on Restricted Payments,*" "*—Limitation on Indebtedness,*" "*—Limitation on Restrictions on Distributions from Restricted Subsidiaries,*" "*—Limitation on Affiliate Transactions,*" "*—Limitation on Sales of Assets and Subsidiary Stock,*" "*—Additional Note Guarantees and Collateral*" and the provisions of clause (3) of the first paragraph of the covenant described under "*—Merger and Consolidation—The Issuer and the Parent,*" (together, the "*Suspended Covenants*") and, in each case, any related default provision of the Indenture will cease to be effective and will not be applicable to the Parent and its Restricted Subsidiaries. Such covenants and any related default provisions will again apply according to their terms from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Parent or any of its

Restricted Subsidiaries properly taken during the continuance of the Suspension Event, and the "*—Limitation on Restricted Payments*" covenant will be interpreted as if it has been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended. On the Reversion Date, all Indebtedness Incurred during the continuance of the Suspension Event will be classified, at the Parent's option, as having been Incurred pursuant to the first paragraph of the covenant described under "*—Limitation on Indebtedness*" or one of the clauses set forth in the second paragraph of such covenant, to the extent such Indebtedness would be permitted to be Incurred thereunder as of the Reversion Date and after giving effect to Indebtedness Incurred prior to the Suspension Event and outstanding on the Reversion Date. To the extent such Indebtedness would not be so permitted to be Incurred under the first two paragraphs of the covenant described under "*—Limitation on Indebtedness,*" such Indebtedness will be deemed to have been outstanding on the Closing Date, so that it is classified as permitted under sub-clause (4)(b) of the second paragraph of the covenant described under "*—Limitation on Indebtedness.*"

In addition, on the Reversion Date, (1) any Affiliate Transaction entered into after the Reversion Date pursuant to an agreement entered into during the continuance of the Suspension Event shall be deemed to be permitted pursuant to clause (6) of the second paragraph of the covenant described under "*—Limitation on Affiliate Transactions*" and (2) any encumbrance or restriction on the ability of any Restricted Subsidiary to take any action described in clauses (A) through (C) of the first paragraph of the covenant described under "*—Limitation on Restrictions on Distributions from Restricted Subsidiaries*" that becomes effective during the continuance of the Suspension Event shall be deemed to be permitted pursuant to sub-clause 1(d) of the second paragraph of the covenant described under "*—Limitation on Restrictions on Distributions from Restricted Subsidiaries*."

The Issuer shall notify the Trustee that the conditions under this covenant have been satisfied, although such notification shall not be a condition for the suspension of the Suspended Covenants. The Trustee shall not be obliged to notify Holders of any Suspension Event or Reversion Date.

Notwithstanding that the Suspended Covenants shall be reinstated on and from the Reversion Date, no Default, Event of Default or breach of any kind will be deemed to exist under the Indenture with respect to the Suspended Covenants, and none of the Parent or any of its Subsidiaries shall bear any liability for any actions taken or events occurring during the continuance of the Suspension Event, or any actions taken at any time pursuant to any contractual obligation arising during the continuance of the Suspension Event, in each case, as a result of a failure to comply with the Suspended Covenants during the continuance of the Suspension Event (or, upon termination of the Suspension Event or after that time based solely on any action taken or event that occurred during the continuance of the Suspension Event), and following a Reversion Date, the Parent and each Restricted Subsidiary will be permitted, without causing a Default or Event of Default, to honor, comply with or otherwise perform any contractual commitments or obligations arising during the continuance of any Suspension Event to the extent that such contractual commitments or obligations are permitted or not prohibited under the Indenture, and to consummate the transactions contemplated thereby.

Limited Condition Transaction

When calculating the availability under any basket or ratio under the Indenture or determining compliance with any provision of the Indenture in connection with any Limited Condition Transaction and any actions or transactions related thereto (including acquisitions, Investments, the incurrence or issuance of Indebtedness, Disqualified Stock or Preferred Stock and the use of proceeds thereof, the incurrence of Liens, repayments and Restricted Payments), in each case, at the option of the Parent (the Parent's election to exercise such option, an "*LCT Election*"), the date of determination for availability under any such basket or ratio and whether any such action or transaction is permitted (or any requirement or condition therefor is complied with or satisfied (including as to the absence of any continuing Default or Event of Default)) under the Indenture shall be deemed to be the date (the "*LCT Test Date*") that the definitive documentation for such Limited Condition Transaction is entered into (or, if applicable, the date of delivery of a binding offer, a "certain funds" tender offer, an irrevocable notice, a declaration of a Restricted Payment or a similar event), and if, after giving pro forma effect to the Limited Condition Transaction and any actions or transactions related thereto (including acquisitions, Investments, the incurrence or issuance of Indebtedness, Disqualified Stock or Preferred Stock and the use of proceeds thereof, the incurrence of Liens, repayments and Restricted Payments) and any related pro forma adjustments, the Parent or any of its Restricted Subsidiaries would have been permitted to take such actions or consummate such transactions on the relevant LCT Test Date in compliance with such ratio, test or basket (and any related requirements and conditions), such ratio, test or basket (and any related requirements and conditions) shall be deemed to have been complied with (or satisfied) for all purposes (in the case of Indebtedness, for example, whether such Indebtedness is committed, issued or incurred at the LCT Test Date or at any time thereafter); *provided* that (a) if financial statements for one or more subsequent fiscal quarters shall have become available, the Parent may elect, in its sole discretion, to re-determine all such ratios, tests or baskets on the basis of such financial statements, in which case, such date of redetermination shall thereafter be deemed to be the applicable LCT Test Date for purposes of such ratios, tests or baskets, and (b) except as contemplated in the foregoing sub-paragraph (a), compliance with such ratios, tests or baskets (and any related requirements and conditions) shall not be determined or tested at any time after the applicable LCT Test Date for such Limited Condition Transaction and any actions or transactions related thereto (including acquisitions, Investments, the incurrence or issuance of Indebtedness, Disqualified Stock or Preferred Stock and the use of proceeds thereof, the incurrence of Liens, repayments and Restricted Payments).

For the avoidance of doubt, if the Parent has made an LCT Election, (1) if any of the ratios, tests or baskets for which compliance was determined or tested as of the LCT Test Date would at any time after the LCT Test Date have been exceeded or otherwise failed to have been complied with as a result of fluctuations in any such ratio, test or basket, including due to fluctuations in Consolidated EBITDA of the Parent or the Person subject to such Limited Condition Transaction, such baskets, tests or ratios will not be deemed to have been exceeded or failed to have been complied with as a result of such fluctuations; (2) if any related requirements and conditions (including as to the absence of any continuing Default or Event of Default) for which compliance or satisfaction was determined or tested as of the LCT Test Date would at any time after the LCT Test Date not have been complied with or satisfied (including due to the occurrence or continuation of a Default or Event of Default), such requirements and conditions will not be deemed to have been failed to be complied with or satisfied (and such Default or Event of Default shall be deemed not to have occurred or be continuing); and (3) in calculating the availability under any ratio, test or basket in connection with any action or transaction unrelated to such Limited Condition Transaction following the relevant LCT Test Date and prior to the earlier of the date on which such Limited Condition Transaction is consummated or the date that the Definitive Agreement or date for redemption, purchase or repayment specified in an irrevocable notice for such Limited Condition Transaction is terminated, expires or passes, as applicable, without consummation of such Limited Condition Transaction, any such ratio, test or basket shall be determined or tested giving pro forma effect to such Limited Condition Transaction.

Additional Note Guarantees and Collateral

Subject to the Agreed Security Principles, the Intercreditor Agreement and any Additional Intercreditor Agreement, the Parent will not cause or permit any of its Restricted Subsidiaries that are not Guarantors or the Issuer, directly or indirectly, to Guarantee any Indebtedness under the Revolving Facilities Agreement (or other Indebtedness that is Incurred under clause (1) of the second paragraph of the covenant described under "*—Limitation on Indebtedness*"), any Public Debt and any Refinancing Indebtedness thereof or any other Indebtedness of the Issuer or a Guarantor exceeding £20.0 million in principal amount, in whole or in part unless, in each case, such Restricted Subsidiary becomes a Guarantor on the date on which such other Guarantee is Incurred and, if applicable, executes and delivers to the Trustee a supplemental indenture in the form attached to the Indenture or other appropriate agreement pursuant to which such Restricted Subsidiary will provide a Guarantee on the same terms and conditions as those set forth in the Indenture, which Guarantee will be senior to or *pari passu* with such Restricted Subsidiary's Guarantee of such other Indebtedness.

A Restricted Subsidiary that is not a Guarantor may become a Guarantor if it executes and delivers to the Trustee a supplemental indenture in the form attached to the Indenture pursuant to which such Restricted Subsidiary will provide a Guarantee.

Following the provision of any additional Guarantees as described above, subject to the Agreed Security Principles, the Intercreditor Agreement and any Additional Intercreditor Agreement (if such security is being granted in respect of the other Indebtedness), any such Guarantor will provide security over certain of its material assets (excluding any assets of such Guarantor which are subject to a Permitted Lien at the time of the execution of such supplemental indenture if providing such security interest would not be permitted by the terms of such Permitted Lien or by the terms of any obligations secured by such Permitted Lien) to secure its Guarantee on a first priority basis consistent with the security agreements related to the existing Collateral.

Each additional Guarantee or security will be limited as necessary to recognize certain defenses generally available to guarantors (including those that relate to fraudulent conveyance or transfer, voidable preference, financial assistance, corporate purpose, thin capitalization, distributable reserves, capital maintenance or similar laws, regulations or defenses affecting the rights of creditors generally) or other considerations under applicable law.

Notwithstanding the foregoing paragraphs, the Parent will not be obligated to cause such Restricted Subsidiary to Guarantee the Notes or provide security to the extent and for so long as the Incurrence of such Guarantee could or the grant of such security would be inconsistent with the Intercreditor Agreement or the Agreed Security Principles.

Impairment of Security Interest

The Parent shall not, and shall not permit any Restricted Subsidiary to, take any action, which action would have the result of materially impairing the security interest with respect to the Collateral (it being understood that the Incurrence of Permitted Collateral Liens, or the confirmation or affirmation of security interests in respect of the Collateral, shall under no circumstances be deemed to materially impair the security interest with respect to the Collateral) for the benefit of the Trustee and the Holders, and the Parent shall not, and shall not permit any Restricted Subsidiary to, grant to any Person other than the Security Agent, for the benefit of the Trustee and the Holders and the other beneficiaries described in the Transaction Security Documents, the Intercreditor Agreement and any Additional Intercreditor Agreement, any Lien over any of the Collateral that is prohibited by the covenant entitled "*—Limitation on Liens;*" *provided* that the Parent and its Restricted Subsidiaries may Incur any Lien over any of the Collateral that is not prohibited by the covenant entitled "*—Limitation on Liens,*" including Permitted Collateral Liens, and the Collateral may be discharged, transferred or released in any circumstances not prohibited by the Indenture, the applicable Transaction Security Documents, the Intercreditor Agreement and any Additional Intercreditor Agreement.

Notwithstanding the above, nothing in this covenant shall restrict the discharge and release of any Lien in accordance with the Indenture, the applicable Transaction Security Documents, the Intercreditor Agreement or any Additional Intercreditor Agreement.

Subject to the foregoing, the Transaction Security Documents may be amended, extended, renewed, restated, supplemented or otherwise modified or released to (i) cure any ambiguity, omission, defect or inconsistency therein; (ii) provide for Permitted Collateral Liens; (iii) add to the Collateral; or (iv) make any other change thereto that does not adversely affect the Holders in any material respect; *provided, however*, that (except where permitted by the Indenture or the Intercreditor Agreement or to effect or facilitate the creation of Permitted Collateral Liens for the benefit of the Security Agent and the holders of other Indebtedness Incurred in accordance with the Indenture) no Transaction Security Document may be amended, extended, renewed, restated or otherwise modified or released unless contemporaneously with such amendment, extension, renewal, restatement or modification or release (followed by an immediate retaking of a Lien of at least equivalent ranking over the same assets), the Parent delivers to the Security Agent and the Trustee, either (1) a solvency opinion, in form and substance reasonably satisfactory to the Security Agent and the Trustee, from an Independent Financial Advisor or appraiser or investment bank which confirms the solvency of the Parent and its Subsidiaries, taken as a whole, after giving effect to any transactions related to such amendment, extension, renewal, restatement, modification or release, (2) a certificate from an Officer of the relevant Person which confirms the solvency of the Person granting such Lien after giving effect to any transactions related to such amendment, extension, renewal, restatement, modification or release (followed by an immediate retaking of a Lien of at least equivalent ranking over the same assets), or (3) an Opinion of Counsel (subject to any qualifications customary for this type of opinion of counsel), in form and substance reasonably satisfactory to the Trustee and the Security Agent, confirming that, after giving effect to any transactions related to such amendment, extension, renewal, restatement, modification or release (followed by an immediate retaking of a lien of at least equivalent ranking over the same assets), the Lien or Liens created under the Transaction Security Document, so amended, extended, renewed, restated, modified or released and replaced are valid and perfected Liens not otherwise subject to any limitation, imperfection or new hardening period, in equity or at law, that such Lien or Liens were not otherwise subject to immediately prior to such amendment, extension, renewal, restatement, modification or release and replacement and to which the new Indebtedness secured by the Permitted Collateral Lien is not subject. In the event that the Parent and its Restricted Subsidiaries comply with the requirements of this covenant, the Trustee and the Security Agent shall (subject to customary protections and indemnifications) consent to such actions without the need for instructions from the Holders.

Equity Contribution in Connection with the Issuance of the Existing Fixed Rate Notes.

The Parent shall procure, no later than the date falling fifteen Business Days after the Issue Date, an equity contribution to the Parent or Subordinated Shareholder Funding of £50.0 million.

Further Assurances

Subject to the Agreed Security Principles, the Parent and its Restricted Subsidiaries will, at their own expense, execute and do all such acts and things and provide such assurances as the Security Agent may reasonably require (i) for registering any Transaction Security Documents in any required register and for perfecting or protecting the security intended to be afforded by such Transaction Security Documents and (ii) if such Transaction Security Documents have become enforceable, for facilitating the realization of all or any part of the assets which are subject to such Transaction Security Documents and for facilitating the exercise of all powers, authorities and discretions vested in the Security Agent or in any receiver of all or any part of those assets. Subject to the Agreed Security Principles, the Parent and its Restricted Subsidiaries will execute all transfers, conveyances, assignments and releases of that property whether to the Security Agent or to its nominees and give all notices, orders and directions which the Security Agent may reasonably request.

Events of Default

Each of the following is an "*Event of Default*" under the Indenture:

(1) default in any payment of interest or Additional Amounts, if any, on any Note when due and payable, continued for 30 days;

(2) default in the payment of the principal amount of or premium, if any, on any Note issued under the Indenture when due at its Stated Maturity, upon optional redemption, upon required repurchase, upon declaration or otherwise;

(3) failure to comply for 30 days after written notice by the Trustee on behalf of the Holders or by the Holders of at least 30% in aggregate principal amount of the outstanding Notes with any of the Issuer's obligations under the covenants described under "*—Change of Control*" above or the obligations of the Parent and the Restricted Subsidiaries under the covenants described under "*—Certain Covenants*" above (in each case, other than a failure to purchase Notes which will constitute an Event of Default under clause (2) above);

(4) failure to comply by the Parent or any of its Restricted Subsidiaries for 60 days after written notice by the Trustee on behalf of the Holders or by the Holders of at least 30% in aggregate principal amount of the outstanding Notes with the Issuer's or the Guarantors' other agreements contained in the Indenture;

(5) default under any mortgage, Indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Parent or any of its Restricted Subsidiaries (or the payment of which is Guaranteed by the Parent or any of its Restricted Subsidiaries) other than Indebtedness owed to the Parent or a Restricted Subsidiary whether such Indebtedness or Guarantee now exists, or is created after the Issue Date, which default:

   (a) is caused by a failure to pay principal at Stated Maturity on such Indebtedness, immediately upon the expiration of the grace period provided in such Indebtedness ("*payment default*"); or

   (b) results in the acceleration of such Indebtedness prior to its maturity (the "*cross acceleration provision*");

and, in each case, the aggregate principal amount of any such Indebtedness, together with the aggregate principal amount of any other such Indebtedness under which there has been a payment default or the maturity of which has been so accelerated, aggregates £30.0 million or more;

(6) certain events of bankruptcy, insolvency or court protection of the Issuer, the Parent or a Significant Subsidiary or group of Restricted Subsidiaries that, taken together (as of the latest audited consolidated financial statements for the Parent and its Restricted Subsidiaries), would constitute a Significant Subsidiary (the "*bankruptcy provisions*");

(7) failure by the Issuer, the Parent, a Significant Subsidiary or group of Restricted Subsidiaries that, taken together (as of the latest audited consolidated financial statements for the Parent and its Restricted Subsidiaries), would constitute a Significant Subsidiary, to pay final judgments aggregating

in excess of £30.0 million (exclusive of any amounts that a solvent insurance company has acknowledged liability for), which judgments are not paid, discharged or stayed for a period of 60 days after the judgment becomes final and due (the "*judgment default provision*");

(8) any security interest under the Transaction Security Documents on any material Collateral having a fair market value in excess of £30.0 million shall, at any time, cease to be in full force and effect (other than in accordance with the terms of the relevant Transaction Security Document, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Indenture) for any reason other than the satisfaction in full of all obligations under the Indenture or the release or amendment of any such security interest in accordance with the terms of the Indenture, the Intercreditor Agreement, any Additional Intercreditor Agreement or such Transaction Security Document or any such security interest created thereunder shall be declared invalid or unenforceable in a final non-appealable decision of a court of competent jurisdiction or the Issuer shall assert in writing that any such security interest is invalid or unenforceable and any such Default continues for 10 days (the "*security default provisions*"); and

(9) any Note Guarantee ceases to be in full force and effect (other than in accordance with the terms of the Intercreditor Agreement and the Indenture), or a Guarantor denies or disaffirms its obligations under its Note Guarantee in writing, other than in accordance with the terms thereof or upon release of the Note Guarantee in accordance with the Indenture.

However, a default under clauses (3), (4), (5) or (7) of this paragraph will not constitute an Event of Default until the Trustee or the Holders of at least 30% in aggregate principal amount of the outstanding Notes notify the Parent of the default and, with respect to clauses (3), (4), (5) and (7), the Parent does not cure such default (or arranges for such default to be cured) within the time specified in clauses (3), (4), (5) or (7), as applicable, of this paragraph after receipt of such notice.

If an Event of Default (other than an Event of Default described in clause (6) above) occurs and is continuing, the Trustee by notice to the Parent, or the Holders of at least 30% in aggregate principal amount of the outstanding Notes by written notice to the Parent and the Trustee, may, and the Trustee at the request of such Holders shall, declare the principal of, premium, if any, and accrued and unpaid interest, including Additional Amounts, if any, on all the Notes to be due and payable. Upon such a declaration, such principal, premium and accrued and unpaid interest, including Additional Amounts, if any, will be due and payable immediately. In the event of a declaration of acceleration of the Notes because an Event of Default described in clause (5) of this "*Events of Default*" section has occurred and is continuing, the declaration of acceleration of the Notes shall be automatically annulled if the event of default or payment default triggering such Event of Default pursuant to clause (5) shall be remedied or cured, or waived by the holders of the Indebtedness, or the Indebtedness that gave rise to such Event of Default shall have been discharged in full, within 30 days after the declaration of acceleration with respect thereto and if (1) the annulment of the acceleration of the Notes would not conflict with any judgment or decree of a court of competent jurisdiction and (2) all existing Events of Default, except nonpayment of principal, premium or interest, including Additional Amounts, if any, on the Notes that became due solely because of the acceleration of the Notes, have been cured or waived.

If an Event of Default described in clause (6) above occurs and is continuing, the principal of, premium, if any, and accrued and unpaid interest, including Additional Amounts, if any, on all the Notes will become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holders.

The Holders of a majority in aggregate principal amount of the outstanding Notes under the Indenture may waive all past or existing Defaults or Events of Default (except with respect to (i) nonpayment of principal, premium or interest, or Additional Amounts, if any and (ii) a covenant or provision which under the Indenture cannot be modified or amended without the consent of the Holders of at least 90% of the principal amount of the Notes then outstanding, each of which may only be waived with the consent of the Holders of at least 90% of the principal amount of the Notes then outstanding) and rescind any such acceleration with respect to such Notes and its consequences if rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Subject to the provisions of the Indenture relating to the duties of the Trustee, if an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any of the Holders unless such Holders have offered to the Trustee indemnity and/or security (including by way of prefunding) satisfactory to the Trustee against any loss, liability or expense. Except to enforce the right to receive payment of principal or interest when due, no Holder may pursue any remedy with respect to the Indenture or the Notes unless:

(1) such Holder has previously given the Trustee written notice that an Event of Default is continuing;

(2) Holders of at least 30% in aggregate principal amount of the outstanding Notes have requested in writing the Trustee to pursue the remedy;

(3) such Holders have offered in writing the Trustee indemnity and/or security (including by way of prefunding) satisfactory to the Trustee against any loss, liability or expense;

(4) the Trustee has not complied with such request within 60 days after the receipt of the offer of security and/or indemnity (including by way of prefunding); and

(5) the Holders of a majority in aggregate principal amount of the outstanding Notes have not given the Trustee a written direction that, in the opinion of the Trustee, is inconsistent with such request within such 60-day period.

Subject to certain restrictions, the Holders of a majority in aggregate principal amount of the outstanding Notes are given the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee. The Indenture provides that, in the event an Event of Default has occurred and is continuing and a responsible officer of the Trustee has received written notice, the Trustee will be required in the exercise of its powers to use the degree of care that a prudent person would use in the conduct of its own affairs. The Trustee, however, may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is unduly prejudicial to the rights of any other Holder or that would involve the Trustee in personal liability. Prior to taking any action under the Indenture, the Trustee will be entitled to indemnification and/or security (including by way of prefunding) satisfactory to it against all losses and expenses caused by taking or not taking such action.

The Indenture provides that if a Default occurs and is continuing and a responsible officer of the Trustee is informed of such occurrence by the Parent, the Trustee must give notice of the Default to the Holders within 90 days after being notified by the Parent. Except in the case of a Default in the payment of principal of, or premium, if any, or interest on any Note, the Trustee may withhold notice if and so long as a committee of trust officers of the Trustee in good faith determines that withholding notice is in the interests of the Holders. The Parent is required to deliver to the Trustee, within 120 days (or, in the case of the first trading year ending after the Acquisition Completion Date, 150 days) after the end of each trading year, a certificate signed by an authorized representative of the Parent indicating whether the signers thereof know of any Default that occurred during the previous year. The Parent is required to deliver to the Trustee, within 30 days after the occurrence thereof, written notice of any events of which it is aware which would constitute a Default or an Event of Default, their status and what action the Parent is taking or proposes to take in respect thereof.

The Indenture provides for the Trustee to take action on behalf of the Holders in certain circumstances, but only if the Trustee is indemnified and/or secured (including by way of prefunding) to its satisfaction. It may not be possible for the Trustee to take certain actions in relation to the Notes and, accordingly, in such circumstances the Trustee will be unable to take action, notwithstanding the provision of an indemnity to it, and it will be for Holders to take action directly.

Holders may not enforce the Indenture or the Notes except as provided in the Indenture and may not enforce the Transaction Security Documents except as provided in such Transaction Security Documents and the Intercreditor Agreement or any Additional Intercreditor Agreement.

Amendments and Waivers

Subject to certain exceptions, the Note Documents may be amended, supplemented or otherwise modified with the consent of the Holders of a majority in aggregate principal amount of the Notes then outstanding (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, such Notes) and, subject to certain exceptions, any default or compliance with any provisions thereof may be waived with the consent of the Holders of a majority in aggregate principal amount of the Notes then outstanding (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, such Notes); *provided* that (i) if any amendment, waiver or other modification will only amend one series of the Notes, only the consent of a majority in aggregate principal amount of the then outstanding Notes of such series shall be required and (ii) if any amendment, waiver or other modification will only affect the Floating Rate Notes or the Fixed Rate Notes, only the consent of the holders of at least a majority in aggregate principal amount of the then outstanding Floating Rate Notes or the Fixed Rate Notes (and not the consent of at least a majority of all Notes then outstanding), as the case may be, shall be required. However, without the consent of Holders holding not less than 90% (or, in the case of clause (8), 75%) of the then outstanding aggregate principal amount of Notes affected (including consents obtained in connection with a purchase of, or tender offer or exchange offer for the Notes), an amendment or waiver may not, with respect to any such series of the Notes held by a non-consenting Holder:

(1) reduce the principal amount of such Notes whose Holders must consent to an amendment, waiver or modification;

(2) reduce the stated rate of or extend the stated time for payment of interest on any such Note;

(3) reduce the principal of or extend the Stated Maturity of any such Note;

(4) reduce the premium payable upon the redemption of any such Note or change the time at which any such Note may be redeemed, in each case as described above under "*—Optional Redemption*" or "*—Redemption for Taxation Reasons;*"

(5) make any such Note payable in money other than that stated in such Note;

(6) amend the contractual right of any Holder to institute suit for the payment of principal or interest on or with respect to such Holder's Notes on or after the due dates thereof;

(7) make any change in the provision of the Indenture described under "*—Additional Amounts*" that adversely affects the right of any Holder of such Notes in any material respect or amends the terms of such Notes in a way that would result in a loss of an exemption from any of the Taxes described thereunder or an exemption from any obligation to withhold or deduct Taxes so described thereunder unless the Payor agrees to pay Additional Amounts, if any, in respect thereof;

(8) release all or substantially all the Guarantors from their obligations under their respective Note Guarantees or the Indenture, except otherwise in accordance with the terms of the Indenture, the Intercreditor Agreement or any Additional Intercreditor Agreement;

(9) release the security interest granted for the benefit of the Holders in the material Collateral, other than pursuant to the terms of the Transaction Security Document or the Indenture, as applicable, except as permitted by the Indenture, the Intercreditor Agreement or any Additional Intercreditor Agreement;

(10) waive a Default or Event of Default with respect to the nonpayment of principal, premium, interest or Additional Amounts, if any, on the Notes (except pursuant to a rescission of acceleration of the Notes by the Holders of at least a majority in aggregate principal amount of such Notes and a waiver of the payment default that resulted from such acceleration); or

(11) make any change in the amendment or waiver provisions which require the Holders' consent holding not less than 90% (or, in the case of clause (8), 75%) of the then outstanding aggregate principal amount of such Notes.

Notwithstanding the foregoing, without the consent of any Holder, the Issuer, the Guarantors, the Trustee and the other parties thereto, as applicable, may amend or supplement any Note Documents to:

(1) cure any ambiguity, omission, defect, error or inconsistency, conform any provision of the Note Documents to the "*Description of the Notes*" contained in an Offering Memorandum, (to the extent such amendment or supplement is in respect of Note Documents for a new series of Notes without affecting the Note Documents for Notes already in issue), or reduce the minimum denomination of the Notes;

(2) provide for the assumption by a successor Person of the obligations of the Issuer or the Guarantors under any Note Document;

(3) provide for uncertificated Notes in addition to or in place of certificated Notes (*provided* that the uncertificated Notes are issued in registered form for purposes of Section 163(f) of the Code, or in a manner such that the uncertificated Notes are described in Section 4701(b)(1)(B) of the Code) or change the minimum denominations for the Notes;

(4) add to the covenants or provide for a Note Guarantee for the benefit of the Holders or surrender any right or power conferred upon the Issuer, the Parent or any Restricted Subsidiary;

(5) make any change that would provide additional rights or benefits to the Trustee or the Holders or does not adversely affect the rights of or benefits to the Trustee or any Holder in any material respect;

(6) make such provisions as necessary (as determined in good faith by the Board of Directors or an Officer of the Parent) for the issuance of Additional Notes;

(7) provide for any Restricted Subsidiary to provide a Note Guarantee in accordance with the covenant described under "*—Certain Covenants—Limitation on Indebtedness*" and "*—Certain Covenants—Additional Note Guarantees and Collateral*" to add Note Guarantees, add security to or for the benefit of the Notes, or confirm and evidence the release, termination, discharge or retaking of any Note Guarantee or Lien (including the Collateral and the Transaction Security Documents) or any amendment in respect thereon with respect to or securing the Notes when such release, termination, discharge or retaking or amendment is permitted under the Indenture, the Intercreditor Agreement, any Additional Intercreditor Agreement or the Transaction Security Documents;

(8) [Intentionally Omitted];

(9) evidence and provide for the acceptance and appointment under the Indenture of a successor Trustee pursuant to the requirements thereof or to provide for the accession by the Trustee to any Note Document; or

(10) in the case of the Transaction Security Documents, mortgage, pledge, hypothecate or grant a security interest in favor of the Security Agent for the benefit of parties to the Revolving Facilities Agreement, the Senior Term Facilities Agreement and the Second Lien Facilities Agreement in any property which is required by the Revolving Facilities Agreement, the Senior Term Facilities Agreement and the Second Lien Facilities Agreement (in each case, as in effect on the Issue Date) to be mortgaged, pledged or hypothecated, or in which a security interest is required to be granted to the Security Agent, or to the extent necessary to grant a security interest for the benefit of any Person; *provided* that the granting of such security interest is not prohibited by the Indenture and the covenant described under "*—Certain Covenants—Impairment of Security Interest*" is complied with.

In formulating its decisions on such matters, the Trustee shall be entitled to rely on such evidence as it deems appropriate, including Officer's Certificates and Opinions of Counsel.

The consent of the Holders is not necessary under the Indenture to approve the particular form of any proposed amendment of any Note Document. It is sufficient if such consent approves the substance of the proposed amendment. A consent to any amendment or waiver under the Indenture by any Holder given in connection with a tender of such Holder's Notes will not be rendered invalid by such tender.

If and for so long as the Notes are listed on the Official List of the Exchange, and if and to the extent that the rules of the Exchange so require, the Issuer will notify the Exchange of any amendment, supplement and waiver.

Acts by Holders

In determining whether the Holders of the required aggregate principal amount of the Notes have concurred in any direction, waiver or consent, any Notes owned by the Issuer or by any Person directly or indirectly controlled, or controlled by, or under direct or indirect common control with, the Issuer will be disregarded and deemed not to be outstanding.

Defeasance

The Issuer at any time may terminate all its and each Guarantor's obligations under the Notes and the Indenture ("*legal defeasance*") and cure all then existing Defaults and Events of Default, except for certain obligations, including those respecting the defeasance trust, the rights, powers, trusts, duties, immunities and indemnities of the Trustee and the obligations of the Issuer in connection therewith and obligations concerning issuing temporary Notes, registrations of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payment and money for security payments held in trust. Subject to the foregoing, if the Issuer exercises its legal defeasance option, the Transaction Security Documents in effect at such time will terminate (other than with respect to the defeasance trust).

The Issuer at any time may terminate all its and each Guarantor's obligations under the covenants described under "*—Certain Covenants*" (other than with respect to clauses (1) and (2) of the covenant described under "*—Certain Covenants—Merger and Consolidation—The Issuer and the* Parent" and the covenant described under "*—Certain Covenants—Merger and Consolidation—Subsidiary Guarantors*") and "*—Change of Control*" and the default provisions relating to such covenants described under "*—Events of Default*" above, the operation of the cross default upon a payment default, the cross acceleration provisions, the bankruptcy provisions, the judgment default provision, the guarantee default provision and the security default provision described under "*—Events of Default*" above ("*covenant defeasance*").

The Issuer at its option at any time may exercise its legal defeasance option notwithstanding its prior exercise of the covenant defeasance option. If the Issuer exercises its legal defeasance option, payment of the Notes may not be accelerated because of an Event of Default with respect to the Notes. If the Issuer exercises its covenant defeasance option with respect to the Notes, payment of the Notes may not be accelerated because of an Event of Default specified in clause (3) (other than with respect to clauses (1) and (2) of the covenant described under "*—Certain Covenants—Merger and Consolidation*" and the covenant described under "*—Certain Covenants—Merger and Consolidation—Subsidiary Guarantors*"), (4), (5), (6) (other than with respect to the Issuer and the Parent), (7), (8) or (9) under "*—Events of Default*" above.

In order to exercise either defeasance option, the Issuer must irrevocably deposit in trust (the "*defeasance trust*") with the Trustee (or such other entity designated or appointed as agent by the Trustee for this purpose) (i) with respect to the Notes denominated in pound sterling, cash in pound sterling, UK Government Obligations, or a combination of cash in pound sterling and UK Government Obligations and (ii) with respect to the Notes denominated in euro, cash in euro, euro-denominated European Government Obligations or a combination of cash in euro and euro-denominated European Government Obligations, in each case, in such amounts as will be sufficient, in the good faith determination of the Board of Directors or an Officer of the Parent, for the payment of principal, premium, if any, and interest on the Notes to redemption or maturity, as the case may be, and must comply with certain other conditions, including delivery to the Trustee of:

(1) an Opinion of Counsel in the United States to the effect that Holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred (and in the case of legal defeasance only, such Opinion of Counsel in the United States must be based on a ruling of the U.S. Internal Revenue Service or other change in applicable U.S. federal income tax law since the Issue Date);

(2) an Officer's Certificate stating that the deposit was not made by the Issuer with the intent of defeating, hindering, delaying, defrauding or preferring any creditors of the Issuer;

(3) an Officer's Certificate and an Opinion of Counsel (which Opinion of Counsel may be subject to customary assumptions and exclusions), each stating that that all conditions precedent provided for or relating to legal defeasance or covenant defeasance, as the case may be, have been complied with;

(4) an Opinion of Counsel to the effect that the trust resulting from the deposit does not constitute, or is qualified as, a regulated investment company under the U.S. Investment Company Act of 1940; and

(5) all other documents or other information that the Trustee may reasonably require in connection with either defeasance option.

Satisfaction and Discharge

The Indenture, and the rights of the Trustee and the Holders under the Intercreditor Agreement, any Additional Intercreditor Agreement and the Transaction Security Document will be discharged and cease to be of further effect (except as to surviving rights of conversion or transfer or exchange of the Notes, as expressly provided for in the Indenture) as to all outstanding Notes when (1) either (a) all the Notes previously authenticated and delivered (other than certain lost, stolen or destroyed Notes and certain Notes for which provision for payment was previously made and thereafter the funds have been released to the Issuer) have been delivered to the Trustee for cancellation; or (b) all Notes not previously delivered to the Trustee for cancellation (i) have become due and payable, (ii) will become due and payable at their Stated Maturity within one year or (iii) are to be called for redemption within one year under arrangements reasonably satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Issuer; (2) the Issuer has deposited or caused to be deposited with the Trustee (or such other entity designated or appointed as agent by the Trustee for this purpose), (i) with respect to the Notes denominated in pound sterling, cash in pound sterling, UK Government Obligations or a combination of cash in pound sterling and UK Government Obligations and (ii) with respect to the Notes denominated in euro, cash in euro, euro-denominated European Government Obligations, or a combination of cash in euro and euro-denominated European Government Obligations, in each case, in an amount sufficient, in the good faith determination of the Board of Directors or an Officer of the Parent to pay and discharge the outstanding aggregate principal amount of indebtedness on the Notes not previously delivered to the Trustee for cancellation, for principal, premium, if any, and interest to the date of deposit (in the case of Notes that have become due and payable), or to the Stated Maturity or redemption date, as the case may be; (3) the Issuer has paid or caused to be paid all other sums payable under the Indenture; and (4) the Issuer has delivered to the Trustee an Officer's Certificate and an Opinion of Counsel each to the effect that all conditions precedent under the "*—Satisfaction and Discharge*" section of the Indenture relating to the satisfaction and discharge of the Indenture have been complied with; *provided* that any such counsel may rely on any Officer's Certificate as to matters of fact (including as to compliance with the foregoing clauses (1), (2) and (3)).

No Personal Liability of Directors, Officers, Employees and Shareholders

No director, officer, employee, incorporator or shareholder of the Issuer or the Parent, any of the Parent's Subsidiaries or any of their respective Affiliates, as such, shall have any liability for any obligations of the Issuer or the Guarantors under the Note Documents or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. Such waiver may not be effective to waive liabilities under the U.S. federal securities laws and it is the view of the SEC that such a waiver is against public policy.

Concerning the Trustee and Certain Agents

Deutsche Trustee Company Limited is the Trustee under the Indenture. The Indenture provides that, except during the continuance of an Event of Default of which a responsible officer of the Trustee has received written notice, the Trustee will perform only such duties as are set forth specifically in the Indenture. During the existence of an Event of Default of which a responsible officer of the Trustee has received written notice, the Trustee will exercise such of the rights and powers vested in it under the Indenture and use the same degree of care that a prudent Person would use in conducting its own affairs. The permissive rights of the Trustee to take or refrain from taking any action enumerated in the Indenture is not to be construed as an obligation or duty.

The Indenture imposes certain limitations on the rights of the Trustee, should it become a creditor of the Issuer, to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee is permitted to engage in other transactions with the Parent, the Issuer and their respective Affiliates and Subsidiaries.

The Indenture sets out the terms under which the Trustee may retire or be removed, and replaced. Such terms include, among others, (1) that the Trustee may be removed at any time by the Holders of a majority in principal amount of the then outstanding Notes by giving notice to the Trustee and the Issuer, or may resign at any time by giving written notice to the Issuer and (2) that if the Trustee at any time (a) has or acquires a conflict of interest in its capacity as Trustee that is not eliminated, or (b) becomes incapable of acting as Trustee or becomes insolvent or bankrupt, then the Issuer may remove the Trustee, or any Holder who has been a bona fide Holder for not less than six months may petition any court for removal of the Trustee and appointment of a successor Trustee.

Any removal or resignation of the Trustee shall not become effective until the acceptance of appointment by the successor Trustee.

The Indenture contains provisions for the indemnification of the Trustee for any loss, liability, taxes and expenses Incurred without gross negligence or willful misconduct on its part, arising out of or in connection with the acceptance or administration of the Indenture.

Notices

All notices to Holders will be validly given if mailed to them at their respective addresses in the register of the Holders, if any, maintained by the Registrar. In addition, if and for so long as the Notes are listed on the Official List of the Exchange, and if and to the extent that the rules of the Exchange so require, the Issuer will notify the Exchange of any notices with respect to the Notes. For so long as any Notes are represented by Global Notes, all notices to Holders will be delivered to Euroclear and Clearstream, delivery of which shall be deemed to satisfy the requirements of this paragraph, for further transmission to the holders of Book-Entry Interests.

Each such notice shall be deemed to have been given on the date of such publication or, if published more than once on different dates, on the first date on which publication is made; *provided* that, if notices are mailed, such notice shall be deemed to have been given on the later of such publication and the seventh day after being so mailed. Any notice or communication mailed to a Holder shall be mailed to such Person by first-class mail or other equivalent means and shall be sufficiently given to such Holder if so mailed within the time prescribed. Failure to mail, cause to be delivered or otherwise transmit a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders. If a notice or communication is mailed or delivered in the manner provided above, it is duly given, whether or not the addressee receives it.

Prescription

Claims against the Issuer or any Guarantor for the payment of principal, or premium, if any, on the Notes or any Note Guarantee will be prescribed five years after the applicable due date for payment thereof. Claims against the Issuer or any Guarantor for the payment of interest on the Notes will be prescribed three years after the applicable due date for payment of interest.

Currency Indemnity

The currency in which any series of Notes hereunder is issued (the "*Relevant Currency*") is the sole currency of account and payment for all sums payable by the Issuer and the Guarantors under or in connection with such series of Notes and the relevant Guarantees, as the case may be, including damages. Any amount received or recovered in a currency other than the Relevant Currency, whether as a result of, or the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer, any Guarantor or otherwise by any Holder or by the Trustee, in respect of any sum expressed to be due to it from the Issuer or a Guarantor will only constitute a discharge to the Issuer or such Guarantor, as applicable, to the extent of the Relevant Currency amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

If that Relevant Currency amount is less than the Relevant Currency amount expressed to be due to the recipient or the Trustee under any series of Notes, the Issuer and the Guarantors will indemnify them against any loss sustained by such recipient or the Trustee as a result. In any event, the Issuer and the Guarantors will indemnify the recipient or the Trustee on a joint and several basis against the cost of making any such purchase. For the purposes of this currency indemnity provision, it will be prima facie evidence of the matter stated therein for the Holder or the Trustee to certify in a manner reasonably satisfactory to the Issuer (indicating the sources of information used) the loss it Incurred in making any such purchase. These indemnities constitute a separate and independent obligation from the Issuer's and the Guarantor's other obligations, will give rise to a separate and independent cause of action, will apply irrespective of any waiver granted by any Holder or the Trustee (other than a waiver of the indemnities set out herein) and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or to the Trustee.

Except as otherwise specifically set forth herein, for purposes of determining compliance with any pound sterling-denominated restriction herein, the Sterling Equivalent amount for purposes hereof that is denominated in a currency other than pound sterling shall be calculated based on the relevant currency exchange rate in effect on the date such non-pound sterling amount is Incurred or made, as the case may be.

Enforceability of Judgments

Since all the assets of the Issuer and the Guarantors are held or located outside the United States, any judgment obtained in the United States against the Issuer or any Guarantor, including judgments with respect to the payment of principal, premium, if any, interest, Additional Amounts, if any, and any redemption price and any purchase price with respect to the Notes or the Guarantees, may not be collectable within the United States.

Consent to Jurisdiction and Service

In relation to any legal action or proceedings arising out of or in connection with the Indenture and the Notes and the Note Guarantees, the Issuer and each Guarantor in the Indenture irrevocably submit to the jurisdiction of the federal and state courts in the Borough of Manhattan in the City of New York, County and State of New York, United States.

Governing Law

The Indenture and the Notes, including any Note Guarantees, and the rights and duties of the parties thereunder are governed by and construed in accordance with the laws of the State of New York.

Certain Definitions

Set forth below are certain defined terms used in the Indenture. Reference is made to the Indenture for a full disclosure of all defined terms used therein, as well as any other capitalized terms used herein for which no definition is provided.

"*Acquired Indebtedness*" means Indebtedness (1) of a Person or any of its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary, or (2) assumed in connection with the acquisition of assets from such Person, in each case whether or not Incurred by such Person in connection with such Person becoming a Restricted Subsidiary or such acquisition or (3) of a Person at the time such Person merges with or into or consolidates or otherwise combines with the Parent or any Restricted Subsidiary. Acquired Indebtedness shall be deemed to have been Incurred, with respect to sub-clause (1) of the preceding sentence, on the date such Person becomes a Restricted Subsidiary and, with respect to sub-clause (2) of the preceding sentence, on the date of consummation of such acquisition of assets and, with respect to sub-clause (3) of the preceding sentence, on the date of the relevant merger, consolidation or other combination.

"*Acquisition*" means the acquisition by the Company of control of the Target by means of a Scheme in accordance with and on the terms of the relevant Acquisition Documents.

"*Acquisition Completion Date*" means March 3, 2020.

"*Acquisition Documents*" means the Scheme Documents.

"*Additional Assets*" means:

(1) any property or assets (other than Indebtedness and Capital Stock) used or to be used by the Parent, a Restricted Subsidiary or otherwise useful in a Similar Business (it being understood that capital expenditures on property or assets already used in a Similar Business or to replace any property or assets that are the subject of such Asset Disposition shall be deemed an investment in Additional Assets);

(2) the Capital Stock of a Person that is engaged in a Similar Business and becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by the Parent or a Restricted Subsidiary; or

(3) Capital Stock constituting a minority interest in any Person that at such time is a Restricted Subsidiary.

"*Additional Intercreditor Agreement*" means one or more intercreditor agreements or deeds, including a restatement, replacement, amendment or other modification of the Intercreditor Agreement.

"*Affiliate*" of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "*control,*" when used with respect to any Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "*controlling*" and "*controlled*" have meanings correlative to the foregoing.

"*Agreed Security Principles*" means the agreed security principles as set out in an annex to the Revolving Facilities Agreement, as applied reasonably and in good faith by the Board of Directors or an Officer of the Parent.

"*Asset Disposition*" means any direct or indirect sale, lease (other than an operating lease entered into in the ordinary course of business), transfer, issuance or other disposition, or a series of related sales, leases (other than operating leases entered into in the ordinary course of business), transfers, issuances or dispositions that are part of a common plan, of shares of Capital Stock of a Subsidiary (other than directors' qualifying shares), property or other assets (each referred to for the purposes of this definition as a "*disposition*") by the Parent or any of its Restricted Subsidiaries, including any disposition by means of a merger, consolidation or similar transaction; *provided* that the sale, conveyance or other disposition of all or substantially all the assets of the Parent and its Restricted Subsidiaries taken as a whole will be governed by the provisions of the Indenture described above under the caption "*—Change of Control*" or the provisions described above under the caption "*—Certain Covenants—Merger and Consolidation*" and not by the covenant described under "*—Certain Covenants—Limitations on Sales of Assets and Subsidiary Stock*." Notwithstanding the preceding provisions of this definition, the following items shall not be deemed to be Asset Dispositions:

(1) a disposition by a Restricted Subsidiary to the Parent or by the Parent or a Restricted Subsidiary to a Restricted Subsidiary;

(2) a disposition of cash, Cash Equivalents, Temporary Cash Investments or Investment Grade Securities;

(3) a disposition of inventory or other assets in the ordinary course of business;

(4) a disposition of obsolete, damaged, unnecessary, unsuitable, surplus or worn out equipment, inventory or other assets or equipment, inventory or other assets that are no longer useful in the conduct of the business of the Parent and its Restricted Subsidiaries (including the disposal, lapse or abandonment of intellectual property that it is no longer economically practicable to maintain or which is no longer required for the business of the Parent and its Restricted Subsidiaries);

(5) transactions permitted under "*—Certain Covenants—Merger and Consolidation*" or a transaction that constitutes a Change of Control;

(6) an issuance of Capital Stock by a Restricted Subsidiary to the Parent or to a Restricted Subsidiary or as part of or pursuant to an equity incentive or compensation plan approved by the Board of Directors of the Parent;

(7) any dispositions of Capital Stock, properties or assets in a single transaction or series of related transactions with a fair market value of less than the greater of (i) £20.0 million and (ii) 4.4% of Consolidated EBITDA;

(8) any Restricted Payment that is permitted to be made, and is made, under the covenant described above under "*—Certain Covenants—Limitation on Restricted Payments*" and the making of any Permitted Payments or Permitted Investments or, solely for purposes of the second paragraph under "*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock,*" asset sales, in respect of which (and only to the extent that) the proceeds of which are used to make such Restricted Payments or Permitted Investments;

(9) dispositions in connection with Permitted Liens;

(10) dispositions of receivables in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings (exclusive of factoring or similar arrangements but, for the avoidance of doubt, including dealings with trade debtors with respect to book debts);

(11) the licensing or sub-licensing, leasing or assigning of intellectual property or other general intangibles and licenses, sub-licenses, assignments, leases, subleases or other dispositions of other property (including without limitation equipment or vehicles), in each case, in the ordinary course of business or consistent with industry practices;

(12) foreclosure, condemnation or any similar action with respect to any property or other assets;

(13) the sale or discount (with or without recourse, and on customary or commercially reasonable terms and for credit management purposes) of accounts receivable or notes receivable arising in the ordinary course of business, or the conversion or exchange of accounts receivable for notes receivable;

(14) any disposition of Capital Stock, Indebtedness or other securities or assets of an Unrestricted Subsidiary;

(15) any disposition of Capital Stock of a Restricted Subsidiary pursuant to an agreement or other obligation with or to a Person (other than the Parent or a Restricted Subsidiary) from whom such Restricted Subsidiary was acquired, or from whom such Restricted Subsidiary acquired its business and assets (having been newly formed in connection with such acquisition), made as part of such acquisition and in each case comprising all or a portion of the consideration in respect of such sale or acquisition;

(16) any surrender or waiver of contract rights or the settlement, release, recovery on or surrender of contract, tort or other claims of any kind (including any disposition of a loan in connection with a capitalization, forgiveness, waiver, release or other discharge of that loan);

(17) any disposition of assets to a Person who is providing services related to such assets, the provision of which have been or are to be outsourced by the Parent or any Restricted Subsidiary to such Person;

(18) any disposition with respect to assets built, owned or otherwise acquired by the Parent or any Restricted Subsidiary (together with any related rights and assets) pursuant to customary sale and lease back transactions, asset securitizations and other similar financings permitted by the Indenture;

(19) (x) sales or dispositions of receivables, bills of exchange and/or inventory, together with any related rights and assets, including cash collection accounts, books and records (with or without recourse, and on customary or commercially reasonable terms), or any disposition of the Capital Stock of a Subsidiary, all or substantially all of the assets of which consist of any of the foregoing, which relate to a transaction described below:

(i) in connection with any Qualified Receivables Financing;

(ii) in connection with any factoring, sale or discounting transaction (or other receivables based financing arrangements); or

(iii) in the ordinary course of business; and

(y) any dispositions in connection with the entry into a Capitalized Lease Obligation; and

(20) any disposition of any asset made in order to (i) comply with an order of any agency of state, authority or other regulatory body or any applicable law or regulation or (ii) resolve competition concerns identified by the relevant antitrust authorities in connection with the Acquisition; *provided* that, the proceeds from such disposition shall be applied in accordance with clauses (a), (b), (c), (d) or (e) of the second paragraph of the covenant described under "*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*."

"*Associate*" means (i) any Person engaged in a Similar Business of which the Parent or its Restricted Subsidiaries are the legal and beneficial owners of between 20% and 50% of all outstanding Voting Stock and (ii) any joint venture entered into by the Parent or any Restricted Subsidiary.

"*Board of Directors*" means (1) with respect to the Parent or any corporation, the board of directors or managers, as applicable, of the corporation, or any duly authorized committee thereof; (2) with respect to any partnership, the board of directors or other governing body of the general partner of the partnership or any duly authorized committee thereof; and (3) with respect to any other Person, the board or any duly authorized committee of such Person serving a similar function. Whenever any provision of the Indenture requires any action or determination to be made by, or any approval of, a Board of Directors, such action, determination or approval shall be deemed to have been taken or made if approved by a majority of the directors (excluding employee representatives, if any) on any such Board of Directors (whether or not such action or approval is taken as part of a formal board meeting or as a formal board approval).

"*Bund Rate*" means, with respect to any date of a redemption notice, the yield to maturity as of the date of such redemption notice of direct obligations of the Federal Republic of Germany (*Bunds* or *Bundesanleihen*) with a constant maturity (as officially compiled and published in the most recent financial statistics that has become publicly available at least two Business Days (but not more than five Business Days) prior to the date of such redemption notice (or, if such financial statistics are not so published or available, any publicly available source of similar market data selected by the Issuer in good faith)) most nearly equal to the period from the date of such redemption notice to July 31, 2021; *provided, however*, that if the period from the date of such redemption notice to July 31, 2021 is not equal to the constant maturity of a direct obligation of the Federal Republic of Germany for which a weekly average yield is given, the Bund Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of direct obligations of the Federal Republic of Germany for which such yields are given, except that if the period from the date of such redemption notice to July 31, 2021 is less than one year, the weekly average yield on actually traded direct obligations of the Federal Republic of Germany adjusted to a constant maturity of one year shall be used; *provided, further*, that if such yield would otherwise be less than zero, it shall be deemed to be zero.

"*Business Day*" means each day that is not a Saturday, Sunday or other day on which banking institutions in London, United Kingdom, New York, United States or the Channel Islands are authorized or required by law, regulation or executive order to close; *provided, however*, that for any payments to be made under the Indenture, such day shall also be a day on which the TARGET2 payment system is open for the settlement of payments.

"*Capital Stock*" of any Person means any and all shares of, rights to purchase, warrants or options for, or other equivalents of or partnership or other interests in (however designated), equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

"*Capitalized Lease Obligations*" means an obligation that is required to be classified and accounted for as a finance lease for financial reporting purposes on the basis of IFRS as in effect and applied in the Original Financial Statements. The amount of Indebtedness represented by such obligation will be the capitalized amount of such obligation at the time any determination thereof is to be made as determined on the basis of IFRS, and the Stated Maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date such lease may be terminated without penalty; *provided* that any obligations in respect of finance leases previously categorized as operating leases prior to the adoption of IFRS 16 shall not be categorized as Capitalized Lease Obligations for the purposes of the Indenture.

"*Cash Equivalents*" means:

(1) securities issued or directly and fully Guaranteed or insured by a Permissible Jurisdiction or, in each case, any agency or instrumentality thereof (*provided* that the full faith and credit of such country or such member state is pledged in support thereof), having maturities of not more than two years from the date of acquisition (or, if later, from the relevant date of calculation under the Indenture);

(2) certificates of deposit, time deposits, eurodollar time deposits, overnight bank deposits or bankers' acceptances (in each case, including any such deposits made pursuant to any sinking fund established by the Parent or any Restricted Subsidiary) having maturities of not more than one year from the date of acquisition thereof (or, if later, from the relevant date of calculation under the Indenture) issued by any lender to the Parent or a Restricted Subsidiary or by any bank or trust company (a) whose commercial paper is rated at least "*A-1*" or the equivalent thereof by S&P or at least "*P-1*" or the equivalent thereof by Moody's (or if at the time neither is issuing comparable ratings, then a comparable rating of another Nationally Recognized Statistical Rating Organization) or (b) (in the event that the bank or trust company does not have commercial paper which is rated) having combined capital and surplus in excess of £500 million;

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clauses (1) and (2) above or clause (5) below entered into with any bank meeting the qualifications specified in clause (2) above;

(4) commercial paper rated at the time of acquisition thereof at least "*A-2*" or the equivalent thereof by S&P or "*P-2*" or the equivalent thereof by Moody's or carrying an equivalent rating by a Nationally Recognized Statistical Rating Organization, if both of the two named rating agencies cease publishing ratings of investments or, if no rating is available in respect of the commercial paper, the issuer of which has an equivalent rating in respect of its long-term debt, and in any case maturing within one year after the date of acquisition thereof (or, if later, from the relevant date of calculation under the Indenture);

(5) readily marketable direct obligations issued by a Permissible Jurisdiction or any agency or instrumentality thereof, in each case, having one of the two highest rating categories obtainable from either Moody's or S&P (or, if at the time, neither is issuing comparable ratings, then a comparable rating of another Nationally Recognized Statistical Rating Organization) with maturities of not more than two years from the date of acquisition (or, if later, from the relevant date of calculation under the Indenture);

(6) Indebtedness or Preferred Stock issued by Persons with a rating of "*BBB-*" or higher from S&P or "*Baa3*" or higher from Moody's (or, if at the time, neither is issuing comparable ratings, then a comparable rating of another Nationally Recognized Statistical Rating Organization) with maturities of 12 months or less from the date of acquisition (or, if later, from the relevant date of calculation under the Indenture);

(7) bills of exchange issued in a Permissible Jurisdiction or any agency or instrumentality thereof, in each case, eligible for rediscount at the relevant central bank and accepted by a bank or other financial institution (or any dematerialized equivalent); and

(8) interests in any investment company, money market fund or enhanced high yield fund which invests 95% or more of its assets in cash or in instruments of the type specified in clauses (1) through (7) above.

"*Change of Control*" means:

(1) the Parent becomes aware that (by way of a report or any other filing pursuant to any regulatory filing, proxy, vote, written notice or otherwise) any "person" or "group" of related persons (as such terms are used in sections 13(d) and 14(d) of the Exchange Act as in effect on the Closing Date), other than one or more Permitted Holders, is or has become the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act as in effect on the Closing Date), directly or indirectly, of more than 50% of the total voting power of the Voting Stock of the Parent; *provided* that for the purposes

of this clause, (x) any holding company whose only material assets relate to ownership of the Capital Stock of the Parent will not itself be considered a "person" or "group"; and (y) any Voting Stock of which any Permitted Holder is the "beneficial owner" (as so defined) shall not be included in any Voting Stock of which any such person or group is the "beneficial owner" (as so defined), unless that person or group is not an affiliate of a Permitted Holder and has greater voting power with respect to that Voting Stock than any other Permitted Holder; or

(2) the sale, lease, transfer, conveyance or other disposition (other than by way of merger, consolidation or other business combination transaction), in one or a series of related transactions, of all or substantially all the assets of the Parent and its Restricted Subsidiaries taken as a whole to a Person, other than a Restricted Subsidiary or one or more Permitted Holders;

provided that, in each case, a Change of Control shall not be deemed to have occurred if such Change of Control is also a Specified Change of Control Event.

Notwithstanding the preceding or any provision of Rule 13d-3 of the Exchange Act, (i) a Person or group shall not be deemed to beneficially own securities subject to an equity or asset purchase agreement, merger agreement or similar agreement (or voting or option or similar agreement related thereto) until the consummation of the transactions contemplated by such agreement, (ii) if any group includes one or more Permitted Holders, the issued and outstanding Voting Stock of the Parent beneficially owned, directly or indirectly, by any Permitted Holders that are part of such group shall not be treated as being beneficially owned by any other member of such group for purposes of determining whether a Change of Control has occurred and (iii) a Person or group will not be deemed to beneficially own the Voting Stock of another person as a result of its ownership of Voting Stock or other securities of such other Person's Holding Entity (or related contractual rights) unless it owns 50% or more of the total voting power of the Voting Stock of such Holding Entity. For purposes of this definition and any related definition to the extent used for purposes of this definition, at any time when 50% or more of the total voting power of the Voting Stock of the Parent is directly or indirectly owned by a Holding Entity, all references to the Parent shall be deemed to refer to its ultimate Holding Entity (but excluding any Permitted Holder) that directly or indirectly owns such Voting Stock.

"*Clearstream*" means Clearstream Banking S.A., or any successor securities clearing agency.

"*Closing Date*" means March 4, 2020.

"*Code*" means the United States Internal Revenue Code of 1986, as amended.

"*Commodity Hedging Agreements*" means, in respect of a Person, any commodity purchase contract, commodity futures or forward contract, commodities option contract or other similar contract (including commodities derivative agreements or arrangements), to which such Person is a party or a beneficiary.

"*Company*" means Stonegate Pub Company Bidco Limited and its successors and assigns.

"*Consolidated EBITDA*" for any period means, without duplication, the Consolidated Net Income for such period, plus the following to the extent deducted in calculating such Consolidated Net Income (or, in the case of clause (10) below, as set out therein) or consisting of the release of provisions specified in clause (9) below:

(1) Consolidated Interest Expense and Receivables Fees;

(2) Consolidated Income Taxes;

(3) consolidated depreciation expense;

(4) consolidated amortization or impairment expense;

(5) any expenses, charges or other costs related to any equity offering (including any Equity Offering and IPO Event), Investment, acquisition (including amounts paid in connection with the acquisition or retention of one or more individuals comprising part of a management team retained to manage the acquired business; *provided* that such payments are made in connection with such acquisition and are consistent with the customary practice in the industry at the time of such acquisition), disposition, recapitalization or the Incurrence of any Indebtedness permitted by the Indenture (in each case whether or not successful) (including any such fees, expenses or charges related to the Transactions), in each case, as determined in good faith by the Board of Directors or an Officer of the Parent;

(6) any minority interest expense (whether paid or not) consisting of income attributable to minority equity interests of third parties in such period or any prior period or any net earnings, income or share of profit of any Associates, associated company or undertaking;

(7) the amount of (i) management, monitoring, consulting, employment and advisory fees and related expenses paid in such period to the Permitted Holders to the extent permitted by the covenant described under "*—Certain Covenants—Limitation on Affiliate Transactions,*" and (ii) any fees and other compensation paid to the members of the board of directors (or the equivalent thereof) of the Parent or any Holding Entity;

(8) other non-cash charges, write-downs or items reducing Consolidated Net Income (excluding any such non-cash charge, write-down or item to the extent it represents an accrual of or reserve for cash charges in any future period) or other items classified by the Parent as extraordinary, exceptional, unusual or nonrecurring items, plus the release of provisions, less other non-cash items of income increasing Consolidated Net Income (other than any non-cash items increasing such Consolidated Net Income pursuant to clauses (1) through (13) inclusive of the definition of Consolidated Net Income and excluding any such non-cash item of income to the extent it represents a receipt of cash in any future period);

(9) any effects of hedging and treasury transactions in respect of actual or anticipated exposures arising in the ordinary course of business of the Group; and

(10) the aggregate amount of cash or Cash Equivalents distributed by any Unrestricted Subsidiary during such period to the Parent or a Restricted Subsidiary as a dividend or other distribution.

Wherever used in the Indenture:

(i) Consolidated EBITDA shall be adjusted for pro forma and other adjustments on the same basis as for calculating the Consolidated Leverage Ratio for the Parent and its Restricted Subsidiaries;

(ii) Consolidated EBITDA shall be measured for the period of the most recent four consecutive fiscal quarters ending prior to the date for which such internal consolidated financial statements of the Parent are available; and

(iii) in relation to sub-clause (1)(i) of the second paragraph of the covenant described under "*—Certain Covenants—Limitation on Indebtedness,*" Consolidated EBITDA shall be measured on the most recent date on which new commitments are obtained (in the case of revolving facilities) or the date on which new Indebtedness is Incurred (in the case of term facilities).

"*Consolidated Financial Interest Expense*" means, for any period (in each case, determined on the basis of IFRS), the sum of:

(1) consolidated net interest of the Parent and its Restricted Subsidiaries related to Indebtedness in cash or in kind (including (a) the interest component of Capitalized Lease Obligations, and (b) net payments, if any, pursuant to interest rate Hedging Obligations with respect to Indebtedness) but not including any Pension Items, amortization of discount, debt issuance costs and premiums, commissions, discounts and other fees and charges owed or paid with respect to financings, or costs associated with Hedging Obligations (other than those described in sub-clause (b) above). Notwithstanding anything to the contrary stated above, but subject to clause (3) below, "Consolidated Financial Interest Expense" shall not include (i) any interest expense relating to interest of any entity that is not the relevant Person, the Parent or a Restricted Subsidiary or any Receivables Fees or (ii) any interest expense or other payment relating to the scheduled amortization of any Unique Securitized Notes;

(2) dividends or other distributions in respect of all Disqualified Stock of the Parent and all Preferred Stock of any Restricted Subsidiary, to the extent held by Persons other than the Parent or a Subsidiary of the Parent; and

(3) any interest on Indebtedness of another Person that is guaranteed by the Parent or any of its Restricted Subsidiaries or secured by a Lien on assets of the Parent or any of its Restricted Subsidiaries.

Consolidated Financial Interest Expense shall be calculated net of any interest income.

"*Consolidated Income Taxes*" means Taxes or other payments, including deferred Taxes, based on income, profits or capital (including, without limitation, withholding Taxes), trade Taxes and franchise Taxes of any of the Parent and its Restricted Subsidiaries whether or not paid, estimated, accrued or required to be remitted to any Governmental Authority.

"*Consolidated Interest Expense*" means, for any period (in each case, determined on the basis of IFRS), the consolidated interest income/expense of the Parent and its Restricted Subsidiaries, whether paid or accrued, plus or including (without duplication) any interest, costs and charges consisting of:

(1) interest expense attributable to Capitalized Lease Obligations;

(2) amortization of debt discount, debt issuance costs and premium;

(3) non-cash interest expense;

(4) commissions, discounts and other fees and charges owed with respect to financings not included in clause (2) above;

(5) the net payments (if any) of Hedging Agreements (excluding amortization of fees and discounts and unrealized gains and losses, costs associated with Hedging Obligations (including termination payments), foreign currency losses and any Receivables Fees);

(6) dividends on other distributions in respect of all Disqualified Stock of the Parent and all Preferred Stock of any Restricted Subsidiary, to the extent held by Persons other than the Parent or a subsidiary of the Parent;

(7) the consolidated interest expense that was capitalized during such period;

(8) any interest on Indebtedness of another Person that is guaranteed by the Parent or any of its Restricted Subsidiaries or secured by a Lien on assets of the Parent or any of its Restricted Subsidiaries; and

(9) Pension Items.

"*Consolidated Leverage*" means the sum of the aggregate outstanding Indebtedness of the Parent and its Restricted Subsidiaries (excluding Hedging Obligations except to the extent provided in sub-clause (c) of the sixth paragraph of the covenant described under "*—Certain Covenants—Limitation on Indebtedness*"), less cash and Cash Equivalents held by the Parent or any of its Restricted Subsidiaries, as of the date of determination. In respect of any applicable period, the exchange rate used to calculate Consolidated Leverage may, at the option of the Parent, be (i) the weighted average exchange rate for that period used by the Parent to calculate Consolidated EBITDA (as determined by the Parent); or (ii) the relevant prevailing exchange rate at close of business on the last day of that period (as determined by the Parent), *provided* that, where applicable, any amount of Indebtedness will be stated so as to take into account the hedging effect of any currency hedging entered into in respect of or by reference to that Indebtedness.

"*Consolidated Leverage Ratio*" means, as of any date of determination, the ratio of (x) (i) the Consolidated Leverage at such date plus (ii) the Reserved Indebtedness Amount of the Parent and its Restricted Subsidiaries that is secured by Liens on the Collateral on at least a *pari passu* basis with the Notes and/or the Second Lien Loans and/or the Senior Term Loans and/or the Revolving Facilities at such date to (y) the aggregate amount of Consolidated EBITDA for the period of the most recent four consecutive trading quarters ending prior to the date of such determination for which internal consolidated financial statements of the Parent are available; *provided*, *however*, that for the purposes of calculating Consolidated EBITDA for such period, if, as of such date of determination:

(1) since the beginning of such period, the Parent or any Restricted Subsidiary has closed or disposed of any company, any business or site, or any group of assets constituting an operating unit of a business or site (any such disposition, a "Sale") or if the transaction giving rise to the need to calculate the Consolidated Leverage Ratio is such a Sale, Consolidated EBITDA for such period will be reduced by an amount equal to the Consolidated EBITDA (if positive) attributable to the assets which are the subject of such Sale for such period or increased by an amount equal to the Consolidated EBITDA (if negative) attributable thereto for such period; *provided* that if any such Sale constitutes "discontinued operations" in accordance with IFRS, Consolidated Net Income shall be reduced by an amount equal to the Consolidated Net Income (if positive) attributable to such operations for such period or increased by an amount equal to the Consolidated Net Income (if negative) attributable thereto for such period;

(2) since the beginning of such period, the Parent or any Restricted Subsidiary (by merger or otherwise) has made an Investment in any Person that thereby becomes a Restricted Subsidiary, or otherwise has acquired any company, any business or site, or any group of assets constituting an operating unit of a business or site, or made a capital investment for the refurbishment of a site or converted the operating model of a site (including, but not limited to, a conversion from a leased and/or tenanted

model to a managed model) (any such Investment or acquisition, a "Purchase"), including any such Purchase occurring in connection with a transaction causing a calculation to be made hereunder, Consolidated EBITDA for such period will be calculated after giving pro forma effect thereto, as if such Purchase occurred on the first day of such period;

(3) since the beginning of such period, the Parent or any Restricted Subsidiary has made or implemented a Specified Transaction or Group Initiative, including any such Specified Transaction or Group Initiative occurring in connection with a transaction causing a calculation to be made hereunder, Consolidated EBITDA for such period will be calculated after giving pro forma effect thereto, including anticipated synergies and cost savings as Specified Transaction or Group Initiative occurred on the first day of such period;

(4) since the beginning of such period, any Person (that became a Restricted Subsidiary or was merged or otherwise combined with or into the Parent or any of its Restricted Subsidiaries since the beginning of such period) will have made any Sale, Purchase, Specified Transaction or Group Initiative that would have required an adjustment pursuant to clause (1), (2) or (3) above if made by the Parent or a Restricted Subsidiary since the beginning of such period, Consolidated EBITDA for such period will be calculated after giving pro forma effect thereto, including anticipated synergies and cost savings, as if such Sale or Purchase occurred on the first day of such period; and

(5) since the beginning of such period, a transfer of shares of, or other transaction has occurred or is contractually committed with respect to, the Parent or any Restricted Subsidiary, that constitutes an event that is contemplated by the definition of "*Specified Change of Control Event*" (any such transaction, a "*Specified Change of Control Transaction*"), and solely for the purpose of making the determination pursuant to "*Specified Change of Control Event,*" Consolidated EBITDA for such period shall be calculated after giving pro forma effect thereto (including anticipated synergies and expenses and cost savings expected to be obtained from the Specified Change of Control Transaction) as if such Specified Change of Control Transaction (including such synergies and expenses and cost savings) had occurred on the first day of such period.

In calculating the Consolidated Leverage Ratio, for so long as the Unique Securitized Notes are outstanding, such calculation shall be made by excluding all Indebtedness, cash, Cash Equivalents and Consolidated EBITDA of the Unique Group; *provided, however*, that (i) for the purposes of calculating the Consolidated Leverage Ratio (x) in clause (11)(b) of the third paragraph of the covenant described under "*—Certain Covenants—Limitation on Restricted Payments,*" and (y) under the definition of "*Specified Change of Control Event*," the specified ratio in such provisions shall be Consolidated Leverage Ratio including all Indebtedness, cash, Cash Equivalents and Consolidated EBITDA of the Unique Group, and (ii) for the purposes of calculating the Consolidated Leverage Ratio for the purposes of paragraphs (C) and (F) of the definition "*Permitted Collateral Liens,*" the Consolidated Leverage Ratio shall be the greater of (1) the Consolidated Leverage Ratio calculated excluding all Indebtedness, cash, Cash Equivalents and Consolidated EBITDA of the Unique Group, and (2) the Consolidated Leverage Ratio calculated including all Indebtedness, cash, Cash Equivalents and Consolidated EBITDA of the Unique Group.

"*Consolidated Net Income*" means, for any period, the profit/(loss) for the financial period of the Parent and its Restricted Subsidiaries determined on a consolidated basis on the basis of IFRS; *provided, however*, that there will not be included in such Consolidated Net Income:

(1) subject to the limitations contained in clause (3) below, any profit/(loss) for the financial period of any Person if such Person is not a Restricted Subsidiary, except that the Parent's equity in the profit/ (loss) for the financial period of any such Person will be included in such Consolidated Net Income up to the aggregate amount of cash or Cash Equivalents that (x) actually distributed by such Person during such period to the Parent or a Restricted Subsidiary as a dividend or other distribution or return on investment and (y) only for the purpose of determining the amount available for Restricted Payments under clause (c)(i) of the first paragraph of the covenant described under "*—Certain Covenants—Limitation on Restricted Payments,*" that could have been distributed, as reasonably determined by an Officer of the Parent (subject, in the case of a dividend or other distribution or return on investment to a Restricted Subsidiary, to the limitations contained in clause (2) below);

(2) solely for the purpose of determining the amount available for Restricted Payments under sub-clause (c)(i) of the first paragraph of the covenant described under "*—Certain Covenants—Limitation on Restricted Payments,*" any profit/(loss) for the financial period of any Restricted Subsidiary (other than Guarantors) if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of

dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to a Guarantor by operation of the terms of such Restricted Subsidiary's charter or any agreement, instrument, judgment, decree, order, statute or governmental rule or regulation applicable to such Restricted Subsidiary or its shareholders (other than (a) restrictions that have been waived or otherwise released, (b) restrictions pursuant to or permitted under the Notes and/or the Indenture, the Second Lien Facility Agreement and/or the Senior Term Facilities Agreement and the Revolving Facilities Agreement and (c) restrictions not prohibited by the covenant described under "*—Certain Covenants—Limitation on Restrictions on Distributions from Restricted Subsidiaries,*" except that the Parent's equity in the net income of any such Restricted Subsidiary for such period will be included in such Consolidated Net Income up to the aggregate amount of cash or Cash Equivalents actually distributed or that could have been distributed by such Restricted Subsidiary during such period to the Parent or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend to a Restricted Subsidiary, to the limitation contained in this clause) even if encumbrances or restrictions to make distributions in cash or Cash Equivalents arise or exist by reason of applicable law or applicable rules, regulation or order;

(3) any net gain (or loss) realized upon the sale or other disposition of any asset or disposed operations of the Parent or any Restricted Subsidiaries (including pursuant to any sale/leaseback transaction) which is not sold or otherwise disposed of in the ordinary course of business (as determined in good faith by the Board of Directors or an Officer of the Parent);

(4) any extraordinary, exceptional, unusual or nonrecurring gain, loss or charge (including for the avoidance of doubt, any tax referable to any payments, dividends or other distributions made or declared intra-group) or any charges or reserves in respect of any restructuring, redundancy or severance expense or other costs related to the Transactions, in each case, as determined in good faith by the Board of Directors or an Officer of the Parent;

(5) at the election of the Parent with respect to any quarterly period, the cumulative effect of a change in accounting principles;

(6) any non-cash compensation charge or expense arising from any grant of stock, stock options or other equity based awards and any non-cash deemed finance charges in respect of any Pension Items or other provisions;

(7) all deferred financing costs written off and premiums paid or other expenses Incurred directly in connection with any early extinguishment of Indebtedness and any net gain (loss) from any write-off or forgiveness of Indebtedness, and any provisions in respect of working capital;

(8) any unrealized gains or losses in respect of Hedging Obligations or any ineffectiveness recognized in earnings related to qualifying hedge transactions or the fair value of changes therein recognized in earnings for derivatives that do not qualify as hedge transactions, in each case, in respect of Hedging Obligations;

(9) any unrealized foreign currency transaction gains or losses in respect of Indebtedness of any Person denominated in a currency other than the functional currency of such Person and any unrealized foreign exchange gains or losses relating to translation of assets and liabilities denominated in foreign currencies;

(10) any unrealized foreign currency translation or transaction gains or losses in respect of Indebtedness or other obligations of the Parent or any Restricted Subsidiary owing to the Parent or any Restricted Subsidiary;

(11) any purchase accounting effects including, but not limited to, adjustments to inventory, property and equipment, software and other intangible assets and deferred revenue in component amounts required or permitted by IFRS and related authoritative pronouncements (including the effects of such adjustments pushed down to the Parent and the Restricted Subsidiaries), as a result of any consummated acquisition, or the amortization or write-off of any amounts thereof;

(12) any goodwill or other intangible asset impairment, charge, amortization, expense or write-off, including debt issuance costs;

(13) the impact of capitalized, accrued or accreting or pay-in-kind interest or principal on Subordinated Shareholder Funding;

(14) Consolidated Income Taxes to the extent in excess of cash payments made in respect of such Consolidated Income Taxes; and

(15) to the extent covered by insurance and actually reimbursed, or, so long as the Parent has made a determination that there exists reasonable evidence that such amount will in fact be reimbursed by the insurer and only to the extent that such amount is (a) not denied by the applicable insurer in writing within 180 days and (b) in fact reimbursed within 365 days of the date of such evidence (with a deduction for any amount so added back to the extent not so reimbursed within 365 days), losses with respect to business interruption.

"*Consolidated Senior Secured Leverage Ratio*" means the Consolidated Leverage Ratio, but calculated by excluding all Indebtedness other than Senior Secured Indebtedness.

"*Contingent Obligations*" means, with respect to any Person, any obligation of such Person guaranteeing in any manner, whether directly or indirectly, any operating lease, dividend or other obligation that does not constitute Indebtedness ("*primary obligations*") of any other Person (the "*primary obligor*"), including any obligation of such Person, whether or not contingent:

(1) to purchase any such primary obligation or any property constituting direct or indirect security therefor;

(2) to advance or supply funds:

  (a) for the purchase or payment of any such primary obligation; or

  (b) to maintain the working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor; or

(3) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation against loss in respect thereof.

"*Credit Facility*" means, with respect to the Parent or any of its Subsidiaries, one or more debt facilities, indentures or other arrangements (including the Revolving Facilities Agreement, the Senior Term Facilities Agreement, the Second Lien Facility Agreement or commercial paper facilities and overdraft facilities) with banks, other institutions or investors providing for revolving credit loans, term loans, notes, receivables financing (including through the sale of receivables to such institutions or to special purpose entities formed to borrow from such institutions against such receivables), letters of credit or other Indebtedness, in each case, as amended, restated, supplemented, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended from time to time (whether in whole or in part and whether or not with the original administrative agent and lenders or another administrative agent or agents or banks or other institutions or investors and whether provided under the Indenture or one or more other credit or other agreements, indentures, financing agreements or otherwise) and in each case including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing (including any notes and letters of credit issued pursuant thereto and any Guarantee or guarantee agreement and any pledge agreement, debenture and collateral agreement, patent and trademark security agreement, mortgages or letter of credit applications and other Guarantees, pledges, agreements, security agreements and collateral documents). Without limiting the generality of the foregoing, the term "*Credit Facility*" shall include any agreement or instrument (1) changing the maturity of any Indebtedness Incurred thereunder or contemplated thereby, (2) adding Subsidiaries of the Parent as additional borrowers or guarantors thereunder, (3) increasing the amount of Indebtedness Incurred thereunder or available to be borrowed thereunder or (4) otherwise altering the terms and conditions thereof.

"*Currency Agreement*" means, in respect of a Person, any foreign exchange contract, currency swap agreement, currency futures contract, currency option contract, currency derivative or other similar agreement to which such Person is a party or beneficiary.

"*Default*" means any event which is, or after notice or passage of time or both would be, an Event of Default; *provided* that any Default that results solely from the taking of an action that would have been permitted but for the continuation of a previous Default will be deemed to be cured if such previous Default is cured prior to becoming an Event of Default.

"*Definitive Agreement*" means any agreement for the consummation of an acquisition, including without limitation by way of offer, scheme of arrangement, merger, amalgamation or consolidation, by the Parent or one or more of its Restricted Subsidiaries (*provided* that in the case of a public tender offer, a solicitation of proxies or a proposal for a scheme of arrangement or similar scheme, a Definitive Agreement will be deemed to have been entered into at the time of the public announcement).

"*Designated Non-Cash Consideration*" means the fair market value of non-cash consideration received by the Parent or one of its Restricted Subsidiaries in connection with an Asset Disposition that is so designated as Designated Non-Cash Consideration pursuant to an Officer's Certificate, setting forth the basis of such valuation, less the amount of cash, Cash Equivalents or Temporary Cash Investments received in connection with a subsequent payment, redemption, retirement, sale or other disposition of such Designated Non-Cash Consideration. A particular item of Designated Non-Cash Consideration will no longer be considered to be outstanding when and to the extent it has been paid, redeemed or otherwise retired or sold or otherwise disposed of in compliance with the covenant described under "*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock.*"

"*Designated Preference Shares*" means, with respect to the Parent or any Holding Entity, Preferred Stock (other than Disqualified Stock) (a) that is issued for cash (other than to the Parent or a Subsidiary of the Parent or an employee stock ownership plan or trust established by the Parent or any such Subsidiary for the benefit of their employees to the extent funded by the Parent or such Subsidiary) and (b) that is designated as "*Designated Preference Shares*" pursuant to an Officer's Certificate of the Parent at or prior to the issuance thereof, the Net Cash Proceeds of which are excluded from the calculation set forth in clause (c)(ii) of the first paragraph of the covenant described under "*—Certain Covenants—Limitation on Restricted Payments.*"

"*Disqualified Stock*" means, with respect to any Person, any Capital Stock of such Person which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable) or upon the happening of any event:

(1) matures or is mandatorily redeemable for cash or in exchange for Indebtedness pursuant to a sinking fund obligation or otherwise;

(2) is convertible or exchangeable for Indebtedness or Disqualified Stock (excluding Capital Stock which is convertible or exchangeable solely at the option of the Parent or a Restricted Subsidiary); or

(3) is or may become (in accordance with its terms) upon the occurrence of certain events or otherwise redeemable or repurchasable for cash or in exchange for Indebtedness at the option of the holder of the Capital Stock in whole or in part,

in each case on or prior to the earlier of (a) the Stated Maturity of the Notes or (b) the date on which there are no Notes outstanding; *provided, however*, that (i) only the portion of Capital Stock which so matures or is mandatorily redeemable, is so convertible or exchangeable or is so redeemable at the option of the holder thereof prior to such date will be deemed to be Disqualified Stock and (ii) any Capital Stock that would constitute Disqualified Stock solely because the holders thereof have the right to require the issuer to repurchase such Capital Stock upon the occurrence of a change of control or asset sale (howsoever defined or referred to) shall not constitute Disqualified Stock if any such redemption or repurchase obligation is subject to compliance by the relevant Person with the covenant described under "*—Certain Covenants—Limitation on Restricted Payments.*"

"*Equity Contribution*" means the contribution to the Parent of shareholder funds on or about the Closing Date as part of the Transactions which, for the purposes of clause (c) of the first paragraph of the covenant described under "*—Certain Covenants—Limitation on Restricted Payments,*" and the definition of "*Excluded Contribution*", but not for the purposes of clause (12) of the second paragraph of the covenant described under "*—Certain Covenants—Limitation on Indebtedness*," shall be deemed to include the contribution of new shareholder funds made in connection with the issuance of the Existing Fixed Rate Notes.

"*Equity Investors*" means TDR Capital, funds managed by TDR Capital or any of their respective Affiliates, or any co-investment vehicle managed by TDR Capital, funds managed by TDR Capital or any of their respective Affiliates.

"*Equity Offering*" means a sale by the IPO Entity of (x) Capital Stock (other than Disqualified Stock) other than offerings registered on Form S-8 (or any successor form) under the Securities Act or any similar offering in other jurisdictions, or (y) other securities, the proceeds of which are contributed to the equity (other than through the Equity Contributions, the issuance of Disqualified Stock or Designated Preference Shares or through an Excluded Contribution) of, or as Subordinated Shareholder Funding to, the IPO Entity or any of its Restricted Subsidiaries.

"*euro*" means the single currency of the participating member states of the European Monetary Union.

"*Euro Equivalent*" means, with respect to any monetary amount in a currency other than euro, at any time of determination thereof by the Parent or the Trustee, the amount of euro obtained by converting such currency other than euro involved in such computation into euro at the spot rate for the purchase of euro with the applicable currency other than euro as published in The Financial Times in the "Currency Rates" section (or, if The Financial Times is no longer published, or if such information is no longer available in The Financial Times, such source as may be selected in good faith by the Board of Directors or an Officer of the Parent) on the date of such determination.

"*Euroclear*" means Euroclear Bank SA/NV or any successor securities clearing agency.

"*European Government Obligations*" means direct obligation of, or obligations guaranteed by, a country that is a member of the European Monetary Union on the date of the Indenture (other than Greece, Portugal, Italy or Cyprus), and the payment for which such country pledges its full faith and credit.

"*European Union*" means all members of the European Union as of January 1, 2004 and the Czech Republic.

"*Exchange*" means The International Stock Exchange and its successors and assigns.

"*Exchange Act*" means the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder, as amended.

"*Excluded Contribution*" means Net Cash Proceeds or property or assets received by the Parent as capital contributions to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares) of the Parent after the Closing Date or from the issuance or sale (other than to a Restricted Subsidiary or an employee stock ownership plan or trust established by the Parent or any Subsidiary of the Parent for the benefit of its employees to the extent funded by the Parent or any Restricted Subsidiary) of Capital Stock (other than Disqualified Stock or Designated Preference Shares) of the Parent, in each case, to the extent designated as an Excluded Contribution pursuant to an Officer's Certificate of the Parent.

"*fair market value*" may be conclusively established by means of an Officer's Certificate or a resolution of the Board of Directors of the Parent setting out such fair market value as determined by such Officer or such Board of Directors in good faith.

"*Fixed Charge Coverage Ratio*" means, for any period, the ratio of:

(a) Consolidated EBITDA; to

(b) Consolidated Financial Interest Expense;

provided that, in calculating the Fixed Charge Coverage Ratio or any element thereof for any period, calculations will be made in good faith by the Board of Directors or an Officer of the Parent (including in the case of Purchases, Specified Transactions or Group Initiatives, any pro forma synergies and expenses and cost savings that have occurred or are reasonably expected to occur within the next eighteen months following the date of such calculation, including, without limitation, as a result of, or that would result from any such Purchase, Specified Transaction or Group Initiative, in the good faith judgment of the Board of Directors or an Officer of the Parent (regardless of whether these synergies and expenses and cost savings could then be reflected in pro forma financial statements to the extent prepared)); *provided, further*, without limiting the application of the previous proviso, that for the purposes of calculating Consolidated EBITDA or Consolidated Financial Interest Expense for such period, if, as of such date of determination:

(1) since the beginning of such period, the Parent or any Restricted Subsidiary has closed or disposed of any company, any business or site, or any group of assets constituting an operating unit of a business or site (any such disposition, a "Sale") or if the transaction giving rise to the need to calculate the Fixed Charge Coverage Ratio is such a Sale, (a) Consolidated EBITDA for such period will be reduced by an amount equal to the Consolidated EBITDA (if positive) attributable to the assets which are the subject of such Sale for such period or increased by an amount equal to the Consolidated EBITDA (if negative) attributable thereto for such period; *provided* that if any such Sale constitutes "discontinued operations" in accordance with IFRS, Consolidated Net Income shall be reduced by an amount equal to the Consolidated Net Income (if positive) attributable to such operations for such period or increased by an amount equal to the Consolidated Net Income (if negative) attributable thereto for such period; and (b) the Consolidated Financial Interest Expense for such period shall be reduced by an amount equal to the Consolidated Financial Interest Expense directly attributable to any Indebtedness of the Parent or of any Restricted Subsidiary repaid, repurchased, defeased or otherwise discharged with respect to the Parent and the continuing Restricted Subsidiaries in connection with such Asset Disposition for such same period (or, if the Capital Stock of any Restricted Subsidiary is sold, the Consolidated Financial Interest Expense for

such period directly attributable to the Indebtedness of such Restricted Subsidiary to the extent the Parent and the continuing Restricted Subsidiaries are no longer liable for such Indebtedness after such Sale);

(2) since the beginning of such period, the Parent or any Restricted Subsidiary (by merger or otherwise) has made an Investment in any Person that thereby becomes a Restricted Subsidiary, or otherwise has acquired any company, any business or site, or any group of assets constituting an operating unit of a business or site, or made a capital investment for the refurbishment of a site or converted the operating model of a site (including, but not limited to, a conversion from a leased and/or tenanted model to a managed model) (any such Investment or acquisition, a "*Purchase*"), including any such Purchase occurring in connection with a transaction causing a calculation to be made hereunder, Consolidated EBITDA and Consolidated Financial Interest Expense for such period will be calculated after giving pro forma effect thereto, as if such Purchase occurred on the first day of such period pro forma effect thereto as if such Purchase occurred on the first day of such period;

(3) since the beginning of such period, the Parent or any Restricted Subsidiary has made or implemented a Specified Transaction or Group Initiative, including any such Specified Transaction or Group Initiative occurring in connection with a transaction causing a calculation to be made hereunder, Consolidated EBITDA and Consolidated Financial Interest Expense for such period will be calculated after giving pro forma effect thereto, including anticipated synergies and cost savings as Specified Transaction or Group Initiative occurred on the first day of such period; and

(4) since the beginning of such period, any Person (that became a Restricted Subsidiary or was merged or otherwise combined with or into the Parent or any of its Restricted Subsidiaries since the beginning of such period) will have made any Sale, Purchase, Specified Transaction or Group Initiative that would have required an adjustment pursuant to clauses (1), (2) or (3) above if made by the Parent or a Restricted Subsidiary since the beginning of such period, Consolidated EBITDA and Consolidated Financial Interest Expense for such period will be calculated after giving pro forma effect thereto as if such Sale or Purchase occurred on the first day of such period.

If any Indebtedness bears a floating rate of interest and is being given pro forma effect, the interest expense on such Indebtedness will be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any Hedging Obligation applicable to such Indebtedness for a period equal to the remaining term of such Indebtedness).

For the purposes of this definition and the definitions of Consolidated EBITDA, Consolidated Financial Interest Expense, Consolidated Income Taxes, Consolidated Interest Expense, Consolidated Leverage Ratio and Consolidated Net Income, to the extent applicable and without duplication, (i) calculations will be as determined in good faith by a responsible financial or accounting officer of the Parent (including in respect of anticipated synergies and expense and cost reductions, and as though the full effect of synergies and expense and cost reductions were realized on the first day of the relevant period and shall also include the reasonably anticipated full run rate cost savings effect (as calculated in good faith by a responsible financial or chief accounting officer of the Parent) of any Group Initiatives that have been initiated or implemented by the Parent or its Restricted Subsidiaries during the relevant period or in connection with an event specified in clauses (1), (2) or (3) above as though such Group Initiative had been fully implemented on the first day of the relevant period), (ii) in determining the amount of Indebtedness outstanding on any date of determination, pro forma effect shall be given to any Incurrence, repayment, repurchase, defeasance or other acquisition, retirement or discharge of Indebtedness as if such transaction had occurred on the first day of the relevant period, (iii) pro forma effect shall be given to anticipated acquisitions which have become subject to Definitive Agreements, (iv) calculations shall also give pro forma effect to any Specified Transaction that has occurred since the beginning of such period but which has not yet been fully reflected in the relevant period (as determined and calculated by a responsible financial or accounting officer of the Parent), (v) calculations shall exclude any non-recurring costs and other expenses arising directly or indirectly as a consequence of any Sale or Purchase or Specified Transaction and/or the implementation of any Group Initiative, (vi) "determined on a consolidated basis on the basis of IFRS," "determined on the basis of IFRS" and similar provisions shall at the election of the Parent allow for calculation to be made on the basis of presentation of the financial statements provided pursuant to the terms of the covenant described under "*—Certain Covenants—Reports,*" and (vii) in the event that the Parent or a Restricted Subsidiary enters into or increases commitments under a revolving credit facility or letter of credit facility, the Fixed Charge Coverage Ratio, Consolidated Leverage or Consolidated EBITDA-based permission, as applicable, for borrowings and reborrowing thereunder (and including issuance and creation of letters of credit and bankers' acceptances thereunder) will, at the

Parent's option as elected on the date the Parent or a Restricted Subsidiary, as the case may be, enters into or increases such commitments, either (x) be determined on the date of such revolving credit facility, such letter of credit facility or such increase in commitments (assuming that the full amount thereof has been borrowed as of such date), and, if such Fixed Charge Coverage Ratio, Consolidated Leverage or Consolidated EBITDA-based permission, as applicable, test is satisfied with respect thereto at such time, any borrowing or reborrowing thereunder (and the issuance and creation of letters of credit and bankers' acceptances thereunder) will be permitted under this covenant irrespective of the Fixed Charge Coverage Ratio, Consolidated Leverage or Consolidated EBITDA, as applicable, at the time of any borrowing or reborrowing (or issuance or creation of letters of credit or bankers' acceptances thereunder) (the committed amount permitted to be borrowed or reborrowed (and the issuance and creation of letters of credit and bankers' acceptances) on a date pursuant to the operation of this sub-paragraph (x) shall be the "*Reserved Indebtedness Amount*" as of such date for purposes of the Fixed Charge Coverage Ratio, Consolidated Leverage or Consolidated EBITDA-based permission, as applicable, and for purposes of subsequent calculations of the Fixed Charge Coverage Ratio (only for purposes of testing incurrence of the Reserved Indebtedness Amount), Consolidated Leverage or Consolidated EBITDA-based permission (only for the purpose of calculation of the relevant permission), as applicable, the Reserved Indebtedness Amount shall be deemed to be outstanding, whether or not such amount is actually outstanding, for so long as such commitments are outstanding or (y) be determined on the date such amount is borrowed pursuant to any such facility or increased commitment.

In calculating the Fixed Charge Coverage Ratio, for so long as the Unique Securitized Notes are outstanding, such calculation shall be made by excluding the Consolidated EBITDA and Consolidated Financial Interest Expense of the Unique Group.

"*Fixed Rate Applicable Premium*" means, with respect to any Fixed Rate Note on any redemption date, the greater of:

(1) 1.0% of the principal amount of such Fixed Rate Note; or

(2) the excess of:

 (i) the present value at such redemption date of (x) the redemption price of such Fixed Rate Note at July 31, 2022 (such redemption price being set forth in the table appearing under the caption "*—Optional Redemption—Optional Redemption of the New Fixed Rate Notes*"), plus (y) all required interest payments due on such Fixed Rate Note through July 31, 2022 (excluding accrued but unpaid interest), computed using a discount rate equal to the Gilt Rate as of the date of such redemption notice plus 50 basis points; over

 (ii) the outstanding principal amount of such Fixed Rate Note;

as calculated by the Issuer or on behalf of the Issuer by such Person as the Issuer shall designate. For the avoidance of doubt, calculation of the Fixed Rate Applicable Premium shall not be an obligation or duty of the Trustee, the Paying Agent, the Transfer Agent, the Registrar or the Calculation Agent.

"*Floating Rate Applicable Premium*" means, with respect to any Floating Rate Note on any redemption date, the greater of:

(1) 1.0% of the principal amount of such Floating Rate Note; or

(2) the excess of:

 (i) the present value at such redemption date of (x) 101% of the principal amount of the Floating Rate Note, plus (y) all required interest payments due on such Floating Rate Note through July 31, 2021 (excluding accrued but unpaid interest), computed using a discount rate equal to the Bund Rate as of the date of such redemption notice plus 50 basis points; over

 (ii) the outstanding principal amount of such Floating Rate Note;

as calculated by the Issuer or on behalf of the Issuer by such Person as the Issuer shall designate. For the avoidance of doubt, calculation of the Floating Rate Applicable Premium shall not be an obligation or duty of the Trustee, the Paying Agent, the Transfer Agent, the Registrar or the Calculation Agent.

"*Gilt Rate*" means, with respect to any date of a redemption notice, the yield to maturity as of the date of such redemption notice of UK Government Obligations with a fixed maturity (as compiled by the debt management office statistics that have become publicly available at least two Business Days (but not more than five Business Days) in London prior to the date of such redemption notice (or, if such statistics are no longer published, any publicly available source of similar market data)) most nearly equal to the period from the date of such redemption notice to July 31, 2022; provided, however, that if the period from the date of such redemption notice to July 31, 2022 is less than one year, the weekly average yield on actually traded UK Government Obligations denominated in pound sterling adjusted to a fixed maturity of one year shall be used.

"*Governmental Authority*" means any nation, sovereign or government, any state, province, territory or other political subdivision thereof, and any entity or authority exercising executive, legislative, judicial, regulatory, self-regulatory or administrative functions of or pertaining to government, including a central bank or stock exchange.

"*Group*" means the Parent and its Restricted Subsidiaries (or the IPO Pushdown Entity and its Restricted Subsidiaries from the Pushdown Date).

"*Group Initiative*" means any restructuring, changes in operating model (including, but not limited to, conversions from a leased and/or tenanted model to a managed model), operating expense reduction, operating improvement, cost savings programs, procurement initiatives or, in each case, other similar initiative.

"*Guarantee*" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person, including any such obligation, direct or indirect, contingent or otherwise, of such Person:

(1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise); or

(2) entered into primarily for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part), *provided*, *however*, that the term "*Guarantee*" will not include endorsements for collection or deposit in the ordinary course of business. The term "*Guarantee*" used as a verb has a corresponding meaning.

"*Guarantor*" means the Parent and any Restricted Subsidiary that Guarantees the Notes.

"*Hedging Agreement*" means any Interest Rate Agreement, Currency Agreement, Commodity Hedging Agreement or other agreement entered into by the Parent or any of its Subsidiaries to offset, balance or manage risks related to any businesses, services or activities engaged in by the Parent or any of its Subsidiaries or any Associates in the ordinary course.

"*Hedging Obligations*" of any Person means the obligations of such Person pursuant to any Hedging Agreement.

"*Holder*" means each Person in whose name the Notes are registered on the Registrar's books, which shall initially be the nominee of the common depositary for Euroclear or Clearstream.

"*Holding Company*" means, in relation to any Person, any Person of which it is a Subsidiary.

"*Holding Entity*" means any Person of which the Parent at any time is or becomes a Subsidiary after the Closing Date and any holding companies established by any Permitted Holder for purposes of holding its investment in any Holding Entity.

"*IFRS*" means the International Financial Reporting Standards (formerly, International Accounting Standards) endorsed from time to time by the European Union or the United Kingdom or any variation thereof with which the Parent or its Restricted Subsidiaries are, or may be, required to comply; *provided* that at any date after the Closing Date, the Parent may make an irrevocable election to establish that "IFRS" shall mean IFRS as in effect on a date that is on or prior to the date of such election. Except as otherwise set forth in the Indenture, all ratios and calculations based on IFRS contained in the Indenture shall be computed in accordance with IFRS.

"*Incur*" means issue, create, assume, enter into any Guarantee of, incur, extend or otherwise become liable for; *provided, however*, that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (whether by merger, consolidation, acquisition or otherwise) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and the terms "*Incurred*" and "*Incurrence*" have meanings correlative to the foregoing, and subject to sub-clause (vii) in the last paragraph of the definition of Fixed Charge Coverage Ratio, any Indebtedness pursuant to any revolving credit or similar facility shall only be "*Incurred*" at the time any funds are borrowed thereunder.

"*Indebtedness*" means, with respect to any Person on any date of determination (without duplication):

(1) the principal of indebtedness of such Person for borrowed money;

(2) the principal of obligations of such Person evidenced by bonds (other than a performance or advance payment bond or similar instrument), debentures, notes or other similar instruments;

(3) all reimbursement obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments except to the extent such reimbursement obligations relate to trade payables and such obligations are satisfied within 30 days of Incurrence, in each case only to the extent issued by a bank or financial institution and *provided* that the underlying obligation in respect of which the instrument was issued would be treated as Indebtedness;

(4) the principal component of all obligations of such Person to pay the deferred and unpaid purchase price of property (except trade payables), where the deferred payment is arranged primarily as a means of raising finance, which purchase price is due more than one year after the date of placing such property in service or taking final delivery and title thereto (or if the relevant supplier customarily allows a period for payment, if later the date 180 days after the expiry of that period), for the avoidance of doubt excluding where the payment deferral results from the delayed or non-satisfaction of contract terms by the supplier, from a dispute carried out in good faith or from contract terms establishing payment schedules tied to total or partial contract completion and/or to the results of operational testing procedures and excluding earn-outs and other contingent consideration arrangements);

(5) Capitalized Lease Obligations of such Person;

(6) the principal component of all obligations, or liquidation preference, of such Person with respect to any Disqualified Stock or, with respect to any Restricted Subsidiary, any Preferred Stock (but excluding, in each case, any accrued dividends);

(7) the principal component of all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided, however*, that the amount of such Indebtedness will be the lesser of (a) the fair market value of such asset at such date of determination (as determined in good faith by the Parent) and (b) the amount of such Indebtedness of such other Persons;

(8) Guarantees by such Person of the principal component of Indebtedness of other Persons to the extent Guaranteed by such Person; and

(9) to the extent not otherwise included in this definition, net obligations of such Person under Hedging Agreements (the amount of any such obligations to be equal at any time to the termination value of such agreement or arrangement giving rise to such obligation that would be payable by such Person at such time).

The amount of Indebtedness of any Person at any time in the case of a revolving credit or similar facility shall, subject to sub-clause (vii) in the last paragraph of the definition of Fixed Charge Coverage Ratio, be the total amounts of funds borrowed and then outstanding. The amount of Indebtedness of any Person at any date shall be determined as set forth above or otherwise provided in the Indenture, and (other than with respect to letters of credit or Guarantees or Indebtedness specified in clause (3) or (8) above) shall be (a) in the case of any Indebtedness issued with original issue discount, the amount in respect thereof that would appear on the balance sheet (excluding any notes thereto) of such Person in accordance with IFRS and (b) the principal amount of the Indebtedness, in the case of any other Indebtedness.

Notwithstanding the above provisions, in no event shall the following constitute Indebtedness:

(i) Subordinated Shareholder Funding;

(ii) any lease, concession or license of property (or guarantee thereof) that was previously categorized as an operating lease prior to the adoption of IFRS 16 or any deposit made in relation thereto;

(iii) any asset retirement obligations;

(iv) any prepayments or deposits or grants received from clients or customers or any Governmental Authority, in each case, in the ordinary course of business;

(v) any income Tax or other payables or obligations under any Tax Sharing Agreement or obligations under any profit sharing agreement;

(vi) any license, permit or other approval (or Guarantees given in respect of such obligations) Incurred prior to the Closing Date or in the ordinary course of business;

(vii) Contingent Obligations Incurred in the ordinary course of business and obligations under or in respect of Qualified Receivables Financing;

(viii) trade credit on normal commercial terms;

(ix) in connection with the purchase by the Parent or any Restricted Subsidiary of any business, any post-closing payment adjustments to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after the closing; *provided, however*, that, at the time of closing, the amount of any such payment is not determinable and, to the extent such payment thereafter becomes fixed and determined, the amount is paid within 30 days thereafter;

(x) for the avoidance of doubt, any obligations in respect of workers' compensation claims, early retirement or termination obligations or any bonds in relation thereto, Pension Items or similar claims, obligations or contributions or social security or wage Taxes;

(xi) obligations of any Person for the reimbursements of any obligor in relation to any confirming services, reverse factoring services and commercial discount lines in the ordinary course of business; or

(xii) obligations of any Person for the reimbursement of any obligor on any letter of credit, banker's acceptance, performance bond, advance payment bonds, surety bonds, completion or performance guarantees or similar transactions, to the extent that such letters, bonds, guarantees or similar transactions are not drawn upon or, if and to the extent drawn upon, are honored in accordance with their terms and if to be reimbursed, are reimbursed no later than the fifth Business Day following receipt by such Person of a demand for reimbursement following payment on the letter of credit or bond.

For the avoidance of doubt, where the amount of Indebtedness falls to be calculated or where the existence (or otherwise) of any Indebtedness is to be established, unless the context requires otherwise (as determined by the Parent in good faith), indebtedness owed by the Parent or any Restricted Subsidiary to the Parent or any other Restricted Subsidiary shall not be taken into account.

"*Independent Financial Advisor*" means an investment banking or accounting firm or any third party appraiser; *provided, however*, that such firm or appraiser is not an Affiliate of the Parent.

"*Initial Public Offering*" means an Equity Offering of common stock or other common equity interests of the IPO Entity following which there is a Public Market and, as a result of which, the shares of common stock or other common equity interests of the IPO Entity in such offering are listed on an internationally recognized exchange or traded on an internationally recognized market.

"*Intercreditor Agreement*" means the intercreditor agreement originally entered into on July 17, 2019 among, *inter alios*, the Parent, the Company, the Issuer, the Debtors (as defined in the Intercreditor Agreement) and the Security Agent, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time and to which the Trustee will accede on or about the Issue Date.

"*Interest Rate Agreement*" means, with respect to any Person, any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or other similar agreement or arrangement to which such Person is party or a beneficiary.

"*Investment*" means, with respect to any Person, all investments by such Person in other Persons (including Affiliates) in the form of any direct or indirect advance, loan or other extensions of credit (other than advances or extensions of credit to customers, suppliers, directors, officers or employees of any Person in the ordinary course of business, and excluding any debt or extension of credit represented by a bank deposit (other than a time deposit) and any loans or credit arising as a result of the operation of cash pooling, net balance or similar arrangements) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or the Incurrence of a Guarantee of any obligation of, or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by, such other Persons and all other items that are or would be classified as investments on a balance sheet prepared on the basis of IFRS; *provided, however*, that endorsements of negotiable instruments and documents in the ordinary course of business will not be deemed to be an Investment. If the Parent or any Restricted Subsidiary issues, sells or otherwise disposes of any Capital Stock of a Person that is a Restricted Subsidiary such that, after giving effect thereto, such Person is no longer a Restricted Subsidiary, any Investment by the Parent or any Restricted Subsidiary in such Person remaining after giving effect thereto will be deemed to be a new Investment at such time equal to the fair market value of the Capital Stock of such Subsidiary not sold or disposed of in an amount determined as provided for in the second paragraph and the final paragraph of the covenant described under "*—Certain Covenants—Limitation on Restricted Payments.*"

For purposes of "*—Certain Covenants—Limitation on Restricted Payments*":

(1) "*Investment*" will include the portion (proportionate to the Parent's equity interest in a Restricted Subsidiary to be designated as an Unrestricted Subsidiary) of the fair market value of the net assets of such Restricted Subsidiary at the time that such Restricted Subsidiary is designated an Unrestricted Subsidiary; *provided, however*, that upon a redesignation of such Subsidiary as a Restricted Subsidiary, the Parent will be deemed to continue to have a permanent "*Investment*" in an Unrestricted Subsidiary in an amount (if positive) equal to (a) the Parent's "*Investment*" in such Subsidiary at the time of such redesignation less (b) the portion (proportionate to the Parent's equity interest in such Subsidiary) of the fair market value of the net assets of such Subsidiary at the time that such Subsidiary is so re-designated a Restricted Subsidiary; and

(2) any property transferred to or from an Unrestricted Subsidiary will be valued at its fair market value at the time of such transfer, in each case as determined in good faith by the Parent.

The amount of any Investment outstanding at any time shall be the original cost of such Investment, reduced (at the Parent's option) by any dividend, distribution, interest payment, return of capital, repayment or other amount or value received in respect of such Investment.

"*Investment Grade Securities*" means:

(1) securities issued or directly and fully guaranteed or insured by a Permissible Jurisdiction or any agency or instrumentality thereof (other than Cash Equivalents);

(2) debt securities or debt instruments with a rating of "*A–*" or higher from S&P or "*A3*" or higher by Moody's or the equivalent of such rating by such rating organization or, if no rating of Moody's or S&P then exists, the equivalent of such rating by any other Nationally Recognized Statistical Rating Organization, but excluding any debt securities or instruments constituting loans or advances among the Parent and its Subsidiaries; and

(3) investments in any fund that invests exclusively in investments of the type described in clauses (1) and (2) above which fund may also hold cash and Cash Equivalents pending investment or distribution. "*Investment Grade Status*" shall occur when the Notes receive both of the following:

   (1) a rating of "*BBB–*" or higher from S&P; and

   (2) a rating of "*Baa3*" or higher from Moody's;

or the equivalent of such rating by either such rating organization or, if no rating of Moody's or S&P then exists, the equivalent of such rating by any other Nationally Recognized Statistical Rating Organization.

"*IPO Entity*" means the Parent, any Holding Entity or any Successor Company of the Parent or any Holding Entity.

"*IPO Event*" means the occurrence of an Initial Public Offering or a Listing.

"*IPO Market Capitalization*" means an amount equal to (i) the total number of issued and outstanding shares of common stock or common equity interests of the IPO Entity at the time of closing of the Initial Public Offering multiplied by (ii) the price per share at which such shares of common stock or common equity interest are sold in such Initial Public Offering.

"*Issue Date*" means July 13, 2020, which is the original date of issuance of the Existing Fixed Rate Notes.

"*Issuer*" means Stonegate Pub Company Financing 2019 plc and its successors and assigns.

"*Lien*" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof).

"*Limited Condition Transaction*" means (1) any Investment or acquisition (whether by merger, amalgamation, consolidation or other business combination or the acquisition of Capital Stock or otherwise), (2) any redemption, repurchase, defeasance, satisfaction and discharge or repayment of

Indebtedness, Disqualified Stock or Preferred Stock requiring irrevocable notice in advance of such redemption, repurchase, defeasance, satisfaction and discharge or repayment and (3) any Restricted Payment requiring irrevocable notice in advance thereof.

"*Listing*" means a listing of all or any part of the share capital of the Parent or any Subsidiary of the Parent on any recognized investment exchange (as that term is used in the Financial Services and Markets Act 2000) or any other sale or issue by way of flotation or public offering in relation to the Parent or any such Subsidiary of the Parent in any jurisdiction or country.

"*Listing Agent*" means the agent for the Issuer in respect of the listing of the Notes on the Exchange as the Issuer may appoint.

"*Management Advances*" means loans or advances made to, or Guarantees with respect to loans or advances made to any Management Investors:

(1) (i) in respect of travel, entertainment or moving related expenses Incurred in the ordinary course of business or (ii) for purposes of funding any such person's purchase of Capital Stock or Subordinated Shareholder Funding (or similar obligations) of the Parent, its Subsidiaries or any Holding Entity;

(2) in respect of moving related expenses Incurred in connection with any closing or consolidation of any facility or office; or

(3) not exceeding the greater of £2.0 million and 0.45% of Consolidated EBITDA in the aggregate outstanding at any time.

"*Management Investors*" means the officers, directors, employees and other members of the management of or consultants to any Holding Entity, the Parent or any of their respective Subsidiaries, or spouses, family members or relatives thereof, or any trust, partnership or other entity for the benefit of or the beneficial owner of which (directly or indirectly) is any of the foregoing, or any of their heirs, executors, successors and legal representatives, who at any date beneficially own or have the right to acquire, directly or indirectly, Capital Stock of the Parent, any Restricted Subsidiary or any Holding Entity.

"*Market Capitalization*" means an amount equal to (i) the total number of issued and outstanding shares of common stock or common equity interests of the IPO Entity on the date of the declaration of the relevant dividend multiplied by (ii) the arithmetic mean of the closing prices per share of such common stock or common equity interests for the 30 consecutive trading days immediately preceding the date of declaration of such dividend.

"*MEP*" means any management equity plan, employee benefit scheme, incentive scheme or other similar or equivalent arrangement implemented or to be implemented.

"*MEP Payment*" means any payment or transaction which is, or which is to be made, entered into or used directly or indirectly (or to facilitate any such step or payment):

(1) to make payment to a member of any MEP (including payments to members leaving any MEP) or any trust or other person in respect of any MEP, incentive scheme or similar arrangement or pay any costs and expenses properly incurred in the establishing and maintaining of any MEP, incentive scheme or similar arrangement; and/or

(2) for repayment or refinancing of amounts outstanding under any loan made in connection with an MEP, incentive scheme or similar arrangement or capitalization of such loans.

"*Midco*" means Stonegate Pub Company Midco Limited, the direct parent company of the Parent, and its successors and assigns.

"*Moody's*" means Moody's Investors Service, Inc. or any of its successors or assigns that is a Nationally Recognized Statistical Rating Organization.

"*Nationally Recognized Statistical Rating Organization*" means a nationally recognized statistical rating organization within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act.

"*Net Available Cash*" from an Asset Disposition means cash payments received (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise and net proceeds from the sale or other disposition of any securities received as consideration, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring Person of Indebtedness or other obligations relating to the properties or assets that are the subject of such Asset Disposition or received in any other non-cash form) therefrom, in each case net of:

(1) all legal, accounting, investment banking, title and recording tax expenses, commissions and other fees and expenses Incurred, and all Taxes paid or required to be paid or accrued as a liability under IFRS (after taking into account any available tax credits or deductions and any Tax Sharing Agreements), as a consequence of such Asset Disposition;

(2) all payments made on any Indebtedness which is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon such assets, or which are required by applicable law to be repaid out of the proceeds from such Asset Disposition;

(3) all distributions and other payments required to be made to minority interest holders (other than any Holding Entity, the Parent or any of their respective Subsidiaries) in Subsidiaries or joint ventures as a result of such Asset Disposition; and

(4) the deduction of appropriate amounts required to be provided by the seller as a reserve, on the basis of IFRS, against any liabilities associated with the assets disposed of in such Asset Disposition and retained by the Parent or any Restricted Subsidiary after such Asset Disposition.

"*Net Cash Proceeds,*" with respect to any issuance or sale of Capital Stock or Subordinated Shareholder Funding, means the cash proceeds of such issuance or sale net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, listing fees, discounts or commissions and brokerage, consultant and other fees and charges actually Incurred in connection with such issuance or sale and net of taxes paid or payable as a result of such issuance or sale (after taking into account any available tax credits or deductions and any Tax Sharing Agreements).

"*Note Documents*" means the Notes (including Additional Notes), the Indenture, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Transaction Security Documents.

"*Offering Memorandum*" means an offering memorandum relating to the offering of any Notes.

"*Officer*" means, with respect to any Person, (1) any member of the Board of Directors, the Chief Executive Officer, the President, the Chief Financial Officer, any Vice President, the Treasurer or the Secretary (a) of such Person or (b) if such Person is owned or managed by a single entity, of such entity, or (2) any other individual designated as an "*Officer*" for the purposes of the Indenture by the Board of Directors of such Person.

"*Officer's Certificate*" means, with respect to any Person, a certificate signed by one Officer of such Person.

"*Opinion of Counsel*" means a written opinion from legal counsel reasonably satisfactory to the Trustee. The counsel may be an employee of or counsel to the Parent or its Subsidiaries.

"*Ordinary Course Leasing Obligation*" means an obligation under any lease or Purchase Money Obligation that relates to any vehicle or other equipment owned by the Parent or any Restricted Subsidiary that is or is intended to be leased to third parties, in each case entered into in the ordinary course of business.

"*Original Financial Statements*" mean the audited consolidated financial statements of the Target as of and for the year ended September 30, 2018.

"*Parent*" means Stonegate Pub Company Limited and its successors and assigns.

"*Parent Expenses*" means:

(1) costs (including all professional fees and expenses) Incurred by any Holding Entity in connection with reporting obligations under or otherwise Incurred in connection with compliance with applicable laws, rules or regulations of any governmental, regulatory or self-regulatory body or stock exchange, the Indenture or any other agreement or instrument relating to Indebtedness of the Parent or any Restricted Subsidiary, including in respect of any reports filed with respect to the Securities Act, Exchange Act or the respective rules and regulations promulgated thereunder;

(2) customary indemnification obligations of any Holding Entity owing to directors, officers, employees or other Persons under its charter or by-laws or pursuant to written agreements with any such Person to the extent relating to the Parent and its Subsidiaries;

(3) obligations of any Holding Entity in respect of director and officer insurance (including premiums therefor) to the extent relating to the Parent and its Subsidiaries;

(4) fees and expenses payable by any Holding Entity, or the return of equity overfunding to any Holding Entity;

(5) (a) general corporate overhead expenses, including professional fees and expenses and other operational expenses of any Holding Entity or any Equity Investor or any of its Affiliates related to the ownership or operation of the business of the Parent or any of its Restricted Subsidiaries and Equity Investor or any of its Affiliates (including, without limitation, accounting, legal, corporate reporting, and administrative expenses as well as payments made pursuant to operating partner arrangements or secondment, employment or similar agreements entered into between the Parent and/or any of its Restricted Subsidiaries and/or any Holding Entity and any Equity Investor or any of its Affiliates or any employee thereof) or (b) costs and expenses with respect to any litigation or other dispute relating to the Transactions or the ownership, directly or indirectly, of the Parent by any Holding Entity;

(6) other fees, expenses and costs relating directly or indirectly to activities of the Parent and its Subsidiaries in an amount not to exceed the greater of £5.0 million and 1.1% of Consolidated EBITDA in any trading year;

(7) expenses Incurred by any Holding Entity in connection with any Public Offering, IPO Event or other sale of Capital Stock or Indebtedness:

(x) where the net proceeds of such offering or sale are intended to be received by or contributed to the Parent or a Restricted Subsidiary,

(y) in a pro-rated amount of such expenses in proportion to the amount of such net proceeds intended to be so received or contributed, or

(z) otherwise on an interim basis prior to completion of such offering so long as any Holding Entity shall cause the amount of such expenses to be repaid to the Parent or the relevant Restricted Subsidiary out of the proceeds of such offering promptly if completed; and

(8) amounts to enable a Holding Entity of the Parent (or any other company which acts as the host of any MEP, incentive scheme or similar arrangement) to:

(i) pay Taxes, duties or similar amounts;

(ii) pay fees, expenses and other costs incurred in acting as, or maintaining its existence as, a holding company of the Parent and its Subsidiaries and/or host of any MEP, incentive scheme or similar arrangement or arising by operation of law or in the ordinary course of administration of its business as a holding company of the Parent and its Subsidiaries (including remuneration payable to employees, directors and officers); and/or

(iii) meet substance requirements for Tax purposes.

"*Pari Passu Indebtedness*" means Indebtedness of the Issuer or any Guarantor if such Indebtedness or Guarantee, as the case may be, ranks equally in right of payment to the Notes or the Note Guarantees, as the case may be, and which, in each case, is secured by Liens on the Collateral which Liens (or recoveries upon enforcement from such Liens) rank equally with those of the Notes.

"*Paying Agent*" means any Person authorized by the Issuer to pay the principal of (and premium, if any) or interest on any Note on behalf of the Issuer.

"*Pension Items*" means any costs, charges or liabilities, including contributions, made in respect of any pension funds or post-retirement benefit schemes, other than administration costs.

"*Permissible Jurisdiction*" means any state, commonwealth or territory of the United States or the District of Columbia, Canada or any province of Canada, Japan, any member state of the European Union as of the date of the Revolving Facilities Agreement (including for the avoidance of doubt the United Kingdom), Switzerland, Norway, the Channel Islands or any political subdivision, taxing authority, agency or instrumentality of any such state, commonwealth, territory, union, country or member state and also, for the purposes of the definitions of "*Cash Equivalents*" and "*Temporary Cash Investments*" only, any jurisdiction in which the Parent or a Restricted Subsidiary does business as of the Closing Date and, for purposes of the covenant described under "*—Certain Covenants—Merger and Consolidation—The Issuer and the Parent*" only, the Cayman Islands.

"*Permitted Asset Swap*" means the concurrent purchase and sale or exchange of assets used or useful in a Similar Business or a combination of such assets and cash, Cash Equivalents or Temporary Cash Investments between the Parent or any of its Restricted Subsidiaries and another Person; *provided* that any cash or Cash Equivalents received in excess of the value of any cash or Cash Equivalents sold or exchanged must be applied in accordance with the covenant described under "*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock.*"

"*Permitted Collateral Liens*" means

(A) Liens on the Collateral described in one or more of clauses (2), (3), (4), (5), (6), (8), (9), (10), (11), (12), (13), (14), (18), (19), (20), (22), (23), (24) (*provided* that any such Liens granted in respect of sale and leaseback transactions or vendor financing after giving pro forma effect to such incurrence and the use of proceeds therefrom: (A) in respect of Liens securing Senior Secured Indebtedness, the Consolidated Senior Secured Leverage Ratio of the Parent would have been less than 5.2 to 1.0 and (B) in respect of Liens ranking junior to the Liens on the Collateral securing the Loans, the Consolidated Leverage Ratio of the Parent would have been less than 6.3 to 1.0), (27), (28) and (30) of the definition of "*Permitted Liens*";

(B) Liens on the Collateral to secure Indebtedness of the Parent or a Restricted Subsidiary that is permitted to be Incurred under clauses (1), (2) (in the case of (2), to the extent such Guarantee is in respect of Indebtedness otherwise permitted to be secured and specified in this definition of Permitted Collateral Liens), (4)(a)(x) and (4)(c) (if the original Indebtedness was so secured), (5)(i) (covering only the shares and assets of the acquired Person the Indebtedness of which is so secured), (5)(ii), (6), (11) or (up to a maximum amount of £50.0 million, only in respect of the contribution of new shareholder funds made in connection with the issuance of the Existing Fixed Rate Notes) (12) of the second paragraph of the covenant described under "*—Certain Covenants—Limitation on Indebtedness;*" *provided, however* , in the case of Liens on Collateral to secure the Indebtedness of the Parent or a Restricted Subsidiary that is permitted to be Incurred under clause (5)(i) or (5)(ii) of the second paragraph of the covenant described under "*—Certain Covenants—Limitation on Indebtedness,*" after giving pro forma effect to such transaction, (x) the Consolidated Senior Secured Leverage Ratio of the Parent would have been less than 5.2 to 1.0 or no higher than it was immediately prior to giving effect to the transaction and (y) the Consolidated Leverage Ratio of the Parent would have been less than 6.3 to 1.0 or no higher than it was immediately prior to giving effect to the transaction;

(C) Liens on the Collateral securing Indebtedness Incurred under the first paragraph of the covenant described under "*—Certain Covenants—Limitation on Indebtedness,*" *provided* that, in the case of this clause (C), after giving pro forma effect to such Incurrence and the use of proceeds therefrom, (x) the Consolidated Senior Secured Leverage Ratio of the Parent would have been less than 5.2 to 1.0 and (y) the Consolidated Leverage Ratio of the Parent would have been less than 6.3 to 1.0;

(D) Liens on the Collateral securing Indebtedness of the Parent or a Restricted Subsidiary that is permitted to be Incurred under sub-clause (4)(a)(y) of the second paragraph of the covenant described under "*—Certain Covenants—Limitation on Indebtedness;*" or

(E) Liens on Collateral securing Refinancing Indebtedness in respect of any Indebtedness secured pursuant to (i) the foregoing clauses (A), (B) and (C) and (ii) the foregoing paragraph (D);

provided that any such Liens securing Indebtedness pursuant to (x) the foregoing paragraphs (B), (C) or (E)(i) rank equal or junior to Liens on the Collateral securing the Notes after giving effect to any recovery of proceeds under any intercreditor or priority agreement (except that a Lien in favor of Indebtedness Incurred under sub-clauses (1)(i) and (6) of the second paragraph of the covenant described under "*—Certain Covenants—Limitation on Indebtedness*" may have super priority not materially less favorable to the Lenders than that accorded to the Revolving Facilities and Hedging Obligations, respectively, as provided in the Intercreditor Agreement subject always to the terms of the Indenture), (y) the foregoing paragraphs (D) or (E)(ii) rank junior to Liens on the Collateral securing the Notes after giving effect to any recovery of proceeds under any intercreditor or priority agreement and (z) foregoing sub-clause (E)(i) of this definition, which constitutes Refinancing Indebtedness in respect of Indebtedness Incurred under the first paragraph of the covenant described under "*—Certain Covenants—Limitation on Indebtedness*" or sub-clause (5)(i) of the second paragraph of the covenant described under "*—Certain Covenants—Limitation on Indebtedness*" or sub-clause (5)(ii) of the second paragraph of the covenant described under "*—Certain Covenants—Limitation on Indebtedness*," rank equal or junior to the Liens on Collateral securing such Indebtedness being refinanced after giving effect to any recovery of proceeds under any intercreditor or priority agreement; and

(F) Liens on the Collateral that secure Indebtedness on a basis junior to the Notes; *provided* that the holders of such Indebtedness (or their representative) accede to the Intercreditor Agreement or an Additional Intercreditor Agreement; and *provided, further*, that in the case of Liens securing Pari Passu Indebtedness, after giving pro forma effect to the Incurrence of such Indebtedness and the use of proceeds therefrom, the Consolidated Leverage Ratio of the Parent would have been less than 6.3 to 1.0.

To the extent that Indebtedness relating to an instrument or agreement is permitted to be secured by a Permitted Collateral Lien, other associated obligations under such instrument or agreement not themselves constituting Indebtedness may also be secured by such Permitted Collateral Lien.

"*Permitted Holders*" means, collectively, (1) the Equity Investors and any Affiliate or Related Person of any of them, (2) any one or more Persons whose beneficial ownership constitutes or results in a Change of Control in respect of which a Change of Control Offer is made in accordance with the requirements of the Indenture, (3) Senior Management, (4) any Person who is acting as an underwriter in connection with a public or private offering of Capital Stock of any Holding Entity or the Parent, acting in such capacity and (5) any "group" (as such term is defined under section 13(d)(3) of the Exchange Act) of which a Permitted Holder (without giving effect to this sub-clause (5)) is a member and where such Permitted Holder is the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act as in effect on the Closing Date) of more than 50% of the Capital Stock of which such group is a "beneficial owner" (as so defined).

"*Permitted Investment*" means (in each case, by the Parent or any of its Restricted Subsidiaries):

(1) Investments in (a) a Restricted Subsidiary (including the Capital Stock of a Restricted Subsidiary) or the Parent or (b) a Person (including the Capital Stock of any such Person) that is engaged in any Similar Business and such Person will, upon the making of such Investment, become a Restricted Subsidiary;

(2) Investments in another Person if such Person is engaged in any Similar Business and as a result of such Investment such other Person is merged, consolidated or otherwise combined with or into, or transfers or conveys all or substantially all its assets to, or is liquidated into the Parent or a Restricted Subsidiary;

(3) Investments in cash, Cash Equivalents, Temporary Cash Investments or Investment Grade Securities;

(4) Investments in receivables owing to the Parent or any Restricted Subsidiary created or acquired in the ordinary course of business, including without limitation deferred receivables representing work in progress created in the ordinary course of business;

(5) Investments in payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;

(6) Management Advances and MEP Payments;

(7) Investments received in settlement of debts created in the ordinary course of business and owing to the Parent or any Restricted Subsidiary, or as a result of foreclosure, perfection or enforcement of any Lien, or in satisfaction of judgments or pursuant to any plan of reorganization or similar arrangement including upon the bankruptcy or insolvency of a debtor;

(8) Investments made as a result of the receipt of non-cash consideration from a sale or other disposition of property or assets, including an Asset Disposition, in each case, that was made in compliance with "*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock;*"

(9) Investments in existence on, or made pursuant to contractual commitments in existence on, the Closing Date (or, in the case of any Person which becomes a Restricted Subsidiary after the Closing Date, any Investments in existence on, or to which that Person is contractually committed as at, the date on which it becomes a Restricted Subsidiary);

(10) Hedging Agreements and related Hedging Obligations, which transactions or obligations are Incurred in compliance with "*—Certain Covenants—Limitation on Indebtedness;*"

(11) Investments, the outstanding principal amount of which, taken together with all other Investments made pursuant to this clause (11) and at any time outstanding (measured as of the time of original Investment without giving effect to appreciation or to accretion or capitalization of interest), in an aggregate amount at the time of such Investment not to exceed the greater of £47.0 million and 10.0% of Consolidated EBITDA; *provided* that, if an Investment is made pursuant to this clause in a Person that is not a Restricted Subsidiary and such Person subsequently becomes a Restricted Subsidiary or is subsequently designated a Restricted Subsidiary pursuant to the covenant described under "*—Certain Covenants—Limitation on Restricted Payments,*" such Investment shall thereafter be deemed to have been made pursuant to clause (1) or (2) of the definition of "*Permitted Investments*" and not this clause;

(12) Investments in negotiable instruments held for collection and pledges or deposits with respect to workers' compensation, leases or utilities provided to third parties in the ordinary course of business or Liens otherwise described in the definition of "*Permitted Liens*" or made in connection with Liens permitted under the covenant described under "*—Certain Covenants—Limitation on Liens;*"

(13) any Investment to the extent made, directly or indirectly, using Capital Stock of the Parent (other than Disqualified Stock) or Subordinated Shareholder Funding or Capital Stock of any Holding Entity as consideration;

(14) any transaction to the extent constituting an Investment that is permitted and made in accordance with the provisions of the second paragraph of the covenant described under "*—Certain Covenants—Limitation on Affiliate Transactions*" (except those described in clauses (1), (3), (6), (8), (9) and (12) of that paragraph), and Investments in Receivables Subsidiaries;

(15) Investments consisting of purchases and acquisitions of inventory, supplies, materials and equipment or leases or agreements in respect of vehicles, information technology and other electronic equipment and point of sale equipment or network or related (or similar or replacement) assets or licenses or leases of intellectual property, in each case, in the ordinary course of business;

(16) guarantees, keepwells and similar arrangements not prohibited by the covenant described under "*—Certain Covenants—Limitation on Indebtedness*" (including payments made pursuant to or to fund any amount that may be required by any such arrangement);

(17) Investments in Associates or Unrestricted Subsidiaries in an aggregate amount when taken together with all other Investments made pursuant to this clause (17) that are at the time outstanding not to exceed the greater of £47.0 million and 10.0% of Consolidated EBITDA; and

(18) Investments in the Senior Bridge Loans, any Notes and pursuant to the Proceeds Loan Agreements.

"*Permitted Liens*" means, with respect to any Person:

(1) Liens on assets or property of a Restricted Subsidiary that is not the Issuer or a Guarantor securing Indebtedness of any Restricted Subsidiary that is not the Issuer or a Guarantor;

(2) pledges, deposits or Liens under workmen's compensation laws, unemployment insurance laws, social security laws or similar legislation, or insurance related obligations (including pledges or deposits securing liability to insurance carriers under insurance or self-insurance arrangements), or in connection with bids, tenders, completion guarantees, contracts (other than for borrowed money) or leases, or to secure utilities, licenses, public or statutory obligations, or to secure surety, indemnity, judgment, appeal or performance bonds, guarantees of government contracts (or other similar bonds, instruments or obligations), or as security for contested Taxes or import or customs duties or for the payment of rent, or other obligations of like nature, in each case Incurred in the ordinary course of business;

(3) Liens imposed by law, including carriers', warehousemen's, mechanics', landlords', materialmen's and repairmen's or other like Liens, in each case for sums not yet overdue for a period of more than 60 days or that are bonded or being contested in good faith by appropriate proceedings;

(4) Liens for Taxes not yet delinquent or which are being contested in good faith by appropriate proceedings;

(5) Liens in favor of issuers of surety, performance or other bonds, guarantees or letters of credit or bankers' acceptances (not issued to support Indebtedness for borrowed money) issued pursuant to the request of and for the account of such Person in the ordinary course of its business;

(6) encumbrances, ground leases, easements (including reciprocal easement agreements and any Liens arising in connection with any swapping of logistics capabilities), survey exceptions, or reservations of, or rights of others for, licenses, rights of way, sewers, electric lines, utility agreements, telegraph and telephone lines and other similar purposes, or zoning, building codes or other restrictions (including minor defects or irregularities in title and similar encumbrances) as to the use of real properties or Liens incidental to the conduct of the business of the Parent and its Restricted Subsidiaries or to the ownership of its properties which do not in the aggregate materially adversely affect the value of said properties (taken as a whole) or materially impair their use in the operation of the business of the Parent and its Restricted Subsidiaries (taken as a whole);

(7) Liens securing Hedging Obligations permitted under the Indenture, or over assets or property of any Restricted Subsidiary which is not required to give a Guarantee pursuant to the Agreed Security Principles and which Lien is in favor of obligations under the Indenture;

(8) leases, licenses, subleases and sublicenses of assets (including real property and intellectual property rights), in each case entered into in the ordinary course of business;

(9) Liens arising out of judgments, decrees, orders or awards not giving rise to an Event of Default so long as any appropriate legal proceedings which may have been duly initiated for the review of such judgment, decree, order or award have not been finally terminated or the period within which such proceedings may be initiated has not expired;

(10) Liens on assets or property of the Parent or any Restricted Subsidiary for the purpose of securing Capitalized Lease Obligations or Purchase Money Obligations, or securing the payment of all or a part of the purchase price of, or securing other Indebtedness Incurred to finance or refinance the acquisition, improvement or construction of, assets or property; *provided* that (a) the aggregate principal amount of Indebtedness secured by such Liens is otherwise permitted to be Incurred under the Indenture and (b) any such Lien may not extend to any assets or property of the Parent or any Restricted Subsidiary other than assets or property acquired, improved, constructed or leased with the proceeds of such Indebtedness and any improvements or accessions to such assets and property or proceeds of such property (including rents), as well as the Capital Stock or assets of any special purpose vehicle that holds no material assets (other than any of the foregoing or those associated with such assets, the financing of such assets, or their deployment);

(11) Liens arising by virtue of any statutory or common law provisions or standard terms and procedures relating to banker's Liens, rights of set-off or similar rights and remedies as to deposit accounts, securities accounts or other funds maintained with a depositary or financial institution or clearing systems (including Euroclear or Clearstream);

(12) Liens arising from Uniform Commercial Code financing statement filings (or similar filings in other applicable jurisdictions) regarding operating leases entered into by the Parent and its Restricted Subsidiaries in the ordinary course of business;

(13) Liens existing on, or provided for or required to be granted under written agreements existing on, the Closing Date;

(14) Liens on property, other assets or shares of stock of a Person at the time such Person becomes a Restricted Subsidiary (or at the time the Parent or a Restricted Subsidiary acquires such property, other assets or shares of stock, including any acquisition by means of a merger, consolidation or other business combination transaction with or into the Parent or any Restricted Subsidiary); *provided, however*, that such Liens are not created, Incurred or assumed in anticipation of or in connection with such other Person becoming a Restricted Subsidiary (or such acquisition of such property, other assets or stock); *provided further,* that such Liens are limited to all or part of the same property, other assets or stock (plus improvements, accessions, proceeds or dividends or distributions in connection with the original property, other assets or stock) that secured (or, under the written arrangements under which such Liens arose, could secure) the obligations to which such Liens relate;

(15) Liens on assets or property of the Parent or any Restricted Subsidiary securing Indebtedness or other obligations of the Parent or such Restricted Subsidiary owing to the Parent or a Restricted Subsidiary and Liens in favor of the Parent or any Restricted Subsidiary;

(16) Liens securing Refinancing Indebtedness Incurred to refinance Indebtedness that was previously so secured, and permitted to be secured under the Indenture; *provided* that any such Lien is limited to all or part of the same property or assets (plus improvements, accessions, proceeds or dividends or distributions in respect thereof) that secured (or, under the written arrangements under which the original Lien arose, could secure) the Indebtedness being refinanced or is in respect of property that is or could be the security for or subject to a Permitted Lien hereunder;

(17) any interest or title of a lessor under any Capitalized Lease Obligation or operating lease;

(18) (a) mortgages, liens, security interests, restrictions, encumbrances or any other matters of record that have been placed by any government, statutory or regulatory authority, developer, landlord or other third party on property over which the Parent or any Restricted Subsidiary has easement rights or on any leased property and subordination or similar arrangements relating thereto and (b) any condemnation or eminent domain proceedings affecting any real property;

(19) any Lien, encumbrance or other restriction (including put and call arrangements) with respect to Capital Stock of, or other ownership interests in, any joint venture, minority interest arrangement or similar investment or arrangement (and/or related assets, including shares or other ownership

interests in any special purpose vehicle holding any such assets) pursuant to any joint venture, minority interest or other similar agreement;

(20) Liens on property or assets under construction (and related rights) in favor of a contractor or developer or arising from progress or partial payments by a third party relating to such property or assets;

(21) Liens on cash accounts securing Indebtedness Incurred under clause (10)(C), (13) or (14) of the second paragraph of the covenant described under "*—Certain Covenants—Limitation on Indebtedness;*"

(22) (i) Liens on escrowed proceeds for the benefit of the related holders of debt securities or other Indebtedness (or the underwriters or arrangers thereof) or cash set aside at the time of the Incurrence of any Indebtedness or government securities purchased with such cash, in either case to the extent such cash or government securities prefund the payment of interest on such Indebtedness and are held in an escrow account or similar arrangement to be applied for such purpose and (ii) Liens on cash or government securities set aside for the purpose of defeasing, repaying, repurchasing or retiring Indebtedness;

(23) Liens securing or arising by reason of any netting or set-off arrangement entered into in the ordinary course of banking or other trading activities or pursuant to any derivative or hedging transaction, or liens over cash accounts securing cash pooling arrangements;

(24) Liens arising out of conditional sale, title retention, hire purchase, consignment or similar arrangements for the sale of goods or otherwise in connection with any leasing (including sale and leaseback transactions), vendor financing or similar arrangements;

(25) Liens; *provided* that the aggregate principal amount of Indebtedness (excluding capitalized interest) secured by such Liens in aggregate does not at any one time exceed the greater of £47.0 million and 10.0% of Consolidated EBITDA at any one time outstanding;

(26) Permitted Collateral Liens;

(27) Liens on Capital Stock or other securities or assets of any Unrestricted Subsidiary that secure Indebtedness of such Unrestricted Subsidiary;

(28) Liens on Receivables Assets Incurred in connection with a Qualified Receivables Financing;

(29) Liens securing Indebtedness permitted to be Incurred pursuant to clause (1) of the second paragraph of the covenant described under "*—Certain Covenants—Limitation on Indebtedness;*"

(30) any cash collateral arrangement securing the obligations of an ancillary lender, landlord, hedging counterparty or regulator in respect of ancillary facilities, leases, Hedging Obligations or capital, surety or other guarantee requirements under applicable regulations of the Parent or its Restricted Subsidiaries; and

(31) any Liens granted in favor of creditors so as to implement a Permitted Reorganization.

"*Permitted Reorganization*" means:

(1) an amalgamation, merger, transfer, consolidation, liquidation, dissolution or corporate reconstruction (each a "Reorganization") on a solvent basis of a member of the Group to the extent permitted under the Indenture where:

   (a) all of the business and assets of that member of the Group remain within the Group (and if that member of the Group was the Issuer or a Guarantor immediately prior to such reorganization being implemented, all of the business and assets of that member are retained by the Issuer or one or more Guarantors);

   (b) if it or its assets or the shares in it were subject to the Transaction Security Documents immediately prior to such Reorganization, the Security Agent will enjoy substantially the same or equivalent security over the same assets or, as the case may be, over it or the shares in it (or in each case over the shares of its successor) or, where a member of the Group is being dissolved or liquidated, its assets (after payment of creditors) are passed up to its Holding Company (subject to such Holding Company granting the same or equivalent security over the relevant assets in favor of the Security Agent); and

   (c) in the case of an amalgamation, merger or corporate reconstruction, if such member of the Group is the Issuer or a Guarantor, the surviving entity is or becomes the Issuer or a Guarantor to at least the same extent as such first mentioned the Issuer or a Guarantor immediately prior to the said amalgamation, merger or corporate reconstruction; or

(2) any Reorganization permitted under the Indenture.

"*Person*" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company, government or any agency or political subdivision thereof or any other entity.

"*PIK Facility Agreement*" means the PIK facility agreement originally entered into on July 17, 2019, among, *inter alios*, Stonegate Pub Company PIKCo Holdings Limited, Stonegate Pub Company PIKCo Limited and Wilmington Trust (London) Limited, as security agent, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time.

"*Preferred Stock,*" as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

"*Proceeds Loan*" means the loan of the proceeds of the Senior Bridge Loans pursuant to the Proceeds Loan Agreements and all loans directly or indirectly replacing or refinancing such loans or a portion thereof.

"*Proceeds Loan Agreements*" means one or more loan agreements dated on or about the date of the Senior Bridge Facilities Agreement between the Issuer, as lender, and the Company, as borrower, pursuant to which the Proceeds Loans were made to the Company.

"*Public Debt*" means any Indebtedness consisting of bonds, debentures, notes or other similar debt securities issued in (1) a public offering registered under the Securities Act or (2) a private placement to institutional and other investors, in each case, that are not Affiliates of the Parent, in accordance with Section 4(a)(2) of and/or Rule 144A or Regulation S under the Securities Act, whether or not it includes registration rights entitling the holders of such debt securities to registration thereof with the SEC for public resale.

"*Public Market*" means any time after:

(1) an Equity Offering has been consummated; and

(2) at least 20% of the total issued and outstanding ordinary shares or common equity of the IPO Entity has been distributed to investors other than the Permitted Holders or any other direct or indirect shareholders of the Parent as of the Closing Date.

"*Public Offering*" means any offering, including an Initial Public Offering, of shares of common stock or other common equity interests that are listed on an exchange or publicly offered (which shall include an offering pursuant to Rule 144A and/or Regulation S under the Securities Act to professional market investors or similar Persons).

"*Purchase Money Obligations*" means any Indebtedness Incurred to finance or refinance the acquisition, leasing, construction or improvement of property (real or personal) or assets (including Capital Stock), and whether acquired through the direct acquisition of such property or assets or the acquisition of the Capital Stock of any Person owning such property or assets, or otherwise.

"*Qualified Receivables Financing*" means any Receivables Financing of a Receivables Subsidiary that meets the following conditions: (1) the Board of Directors or an Officer of the Parent shall have determined in good faith that such Qualified Receivables Financing (including financing terms, covenants, termination events and other provisions) is in the aggregate economically fair and reasonable to the Parent and the Receivables Subsidiary, (2) all sales of accounts receivable and related assets to the Receivables Subsidiary are made at fair market value, and (3) the financing terms, covenants, termination events and other provisions thereof shall be on market terms (as determined in good faith by the Parent) and may include Standard Securitization Undertakings.

The grant of a security interest in any accounts receivable of the Parent or any of its Restricted Subsidiaries (other than a Receivables Subsidiary) to secure Indebtedness under a Credit Facility or Indebtedness in respect of the Notes shall not be deemed a Qualified Receivables Financing.

"*Receivables Assets*" means any assets that are or will be the subject of a Qualified Receivables Financing.

"*Receivables Fees*" means distributions or payments made directly or by means of discounts with respect to any participation interest issued or sold in connection with, and other fees paid to a Person that is not a Restricted Subsidiary in connection with, any Receivables Financing.

"*Receivables Financing*" means any transaction or series of transactions that may be entered into by the Parent or any of its Subsidiaries pursuant to which the Parent or any of its Subsidiaries may sell, convey or otherwise transfer to (a) a Receivables Subsidiary (in the case of a transfer by the Parent or any of its Subsidiaries), or (b) any other Person (in the case of a transfer by a Receivables Subsidiary), or may grant a security interest in, any accounts receivable (whether now existing or arising in the future) of the Parent or any of its Subsidiaries, and any assets related thereto, including all collateral securing such accounts receivable, all contracts and all guarantees or other obligations in respect of such accounts receivable, proceeds of such accounts receivable and other assets which are customarily transferred or in respect of which security interest are customarily granted in connection with asset securitization transactions involving accounts receivable and any Hedging Obligations entered into by the Parent or any such Subsidiary in connection with such accounts receivable.

"*Receivables Repurchase Obligation*" means any obligation of a seller of receivables in a Qualified Receivables Financing to repurchase receivables arising as a result of a breach of a representation, warranty or covenant or otherwise, including as a result of a receivable or portion thereof becoming subject to any asserted defense, dispute, off set or counterclaim of any kind as a result of any action taken by, any failure to take action by or any other event relating to the seller.

"*Receivables Subsidiary*" means a Subsidiary (or another Person formed for the purposes of engaging in a Qualified Receivables Financing with the Parent in which the Parent or any Subsidiary of the Parent makes an Investment and to which the Parent or any Subsidiary of the Parent transfers accounts receivable and/or related assets) which engages in no activities other than in connection with the financing of accounts receivable of the Parent and/or its Subsidiaries, all proceeds thereof and all rights (contractual or other), collateral and other assets relating thereto, and any business or activities incidental or related to such business, and which is designated by the Board of Directors of the Parent (as provided below) as a Receivables Subsidiary and:

(1) no portion of the Indebtedness or any other obligations (contingent or otherwise) of which (i) is guaranteed by the Parent or a Restricted Subsidiary (excluding guarantees of obligations (other than the principal of, and interest on, Indebtedness) pursuant to Standard Securitization Undertakings), (ii) is recourse to or obligates the Parent or a Restricted Subsidiary in any way other than pursuant to Standard Securitization Undertakings, or (iii) subjects any property or asset of the Parent or any of its Restricted Subsidiary, directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to Standard Securitization Undertakings;

(2) with which neither the Parent nor any Restricted Subsidiary has any contract, agreement, arrangement or understanding other than on terms which the Parent reasonably believes to be no less favorable to the Parent or such Restricted Subsidiary than those that might be obtained at the time from Persons that are not Affiliates of the Parent; and

(3) to which neither the Parent nor any Restricted Subsidiary has any obligation to maintain or preserve such entity's financial condition or cause such entity to achieve certain levels of operating results.

In the event of any designation by the Board of Directors of the Parent of a Person as a Receivables Subsidiary, the Parent shall deliver to the Trustee an Officer's Certificate certifying that such designation complied with or satisfied the foregoing conditions.

"*refinance*" means refinance, refund, replace, renew, repay, modify, restate, defer, substitute, supplement, reissue, resell, extend or increase (including pursuant to any defeasance or discharge mechanism) and the terms "*refinances,*" "*refinanced*" and "*refinancing*" as used for any purpose in the Indenture shall have a correlative meaning.

"*Refinancing Indebtedness*" means Indebtedness that is Incurred to refund, refinance, replace, exchange, renew, repay or extend (including pursuant to any defeasance or discharge mechanism) any Indebtedness (or unutilized commitment in respect of Indebtedness that could have otherwise been incurred in compliance with the Indenture) existing on the date of the Revolving Facilities Agreement or Incurred in compliance with the Indenture (including Indebtedness of the Parent that refinances Indebtedness (or unutilized commitment in respect of Indebtedness) of any Restricted Subsidiary and Indebtedness of any Restricted Subsidiary that refinances Indebtedness (or unutilized commitment in respect of Indebtedness) of the Parent or a Restricted Subsidiary) including Indebtedness that refinances Refinancing Indebtedness; *provided, however*, that:

(1) if the Indebtedness being refinanced constitutes Subordinated Indebtedness, the Refinancing Indebtedness has a final Stated Maturity at the time such Refinancing Indebtedness is Incurred that is the same as or later than the final Stated Maturity of the Indebtedness being refinanced or, if shorter, of the Notes;

(2) such Refinancing Indebtedness is Incurred in an aggregate principal amount (or if issued with original issue discount, an aggregate issue price) that is equal to or less than the sum of the aggregate principal amount (or if issued with original issue discount, the aggregate accreted value) then outstanding of the Indebtedness (or unutilized commitment in respect of Indebtedness) being refinanced (plus, without duplication, any additional Indebtedness Incurred to pay interest or premiums required by the instruments governing such existing Indebtedness and costs, expenses and fees Incurred in connection therewith); and

(3) if the Indebtedness being refinanced is expressly subordinated to the Notes or the Note Guarantees, such Refinancing Indebtedness is subordinated to the Notes or the Note Guarantees on terms at least as favorable to the Holders as those contained in the documentation governing the Indebtedness being refinanced, *provided*, *however*, that Refinancing Indebtedness shall not include Indebtedness of the Parent or a Restricted Subsidiary that refinances Indebtedness of an Unrestricted Subsidiary and *provided, further*, that the provisions of clause (3) above would not operate to preclude the refinancing of indebtedness with Indebtedness that is secured with a super priority status (or other preferential security status) if such security is otherwise permitted pursuant to the Indenture.

Refinancing Indebtedness in respect of any Credit Facility or any other Indebtedness may be Incurred from time to time after the termination, discharge or repayment of any such Credit Facility or other Indebtedness.

"*Related Person*" with respect to any Equity Investor, means:

(1) any controlling equity holder or Subsidiary of such Person;

(2) in the case of an individual, any spouse, family member or relative of such individual, any trust or partnership for the benefit of one or more of such individual and any such spouse, family member or relative, or the estate, executor, administrator, committee or beneficiaries of any thereof;

(3) any trust, corporation, partnership or other Person for which one or more of the Permitted Holders and other Related Persons of any thereof constitute the beneficiaries, stockholders, partners or owners thereof, or Persons beneficially holding in the aggregate a majority (or more) controlling interest therein; or

(4) in the case of the Equity Investors any investment fund or vehicle managed, sponsored or advised by such Person or any successor thereto, or by any Affiliate of such Person or any such successor.

"*Related Taxes*" means:

(1) any Taxes including sales, use, transfer, rental, ad valorem, value added, stamp, property, consumption, franchise, license, capital, registration, business, customs, net worth, gross receipts, excise, occupancy, intangibles or similar Taxes (other than (x) Taxes measured by income and (y) withholding Taxes), required to be paid (*provided* such Taxes are in fact paid) by any Holding Entity by virtue of its:

   (a) being organized or having Capital Stock outstanding (but not by virtue of owning stock or other equity interests of any corporation or other entity other than, directly or indirectly, the Parent or any of the Parent's Subsidiaries);

   (b) issuing or holding Subordinated Shareholder Funding;

   (c) being a Holding Entity, directly or indirectly, of the Parent or any of the Parent's Subsidiaries;

   (d) receiving dividends from or other distributions in respect of the Capital Stock of, directly or indirectly, the Parent or any of the Parent's Subsidiaries; or

   (e) having made any payment in respect to any of the items for which the Parent is permitted to make payments to any Holding Entity pursuant to "*—Certain Covenants—Limitation on Restricted Payments;*" or

(2) if and for so long as the Parent is a member of a group filing a consolidated or combined tax return with any Holding Entity or party to a Tax Sharing Agreement, any consolidated or combined Taxes measured by income for which such Holding Entity is liable up to an amount not to exceed, with respect to such Taxes, the amount of any such Taxes that the Parent and its Subsidiaries would have been required to pay on a separate company basis or on a consolidated basis if the Parent and its Subsidiaries had paid Tax on a consolidated, combined, group, affiliated or unitary basis on behalf of an affiliated group consisting only of the Parent and its Subsidiaries; *provided* that distributions shall be permitted in respect of the income of an Unrestricted Subsidiary only to the extent such Unrestricted Subsidiary distributed cash for such purpose to the Parent or its Restricted Subsidiaries.

"*Restricted Investment*" means any Investment other than a Permitted Investment.

"*Restricted Subsidiary*" means any Subsidiary of the Parent other than an Unrestricted Subsidiary.

"*Reversion Date*" means, after the Notes have achieved Investment Grade Status, the date, if any, that such Notes shall cease to have such Investment Grade Status.

"*Revolving Facilities*" means one or more facilities made available under the Revolving Facilities Agreement.

"*Revolving Facilities Agreement*" means the revolving facilities agreement originally entered into on July 17, 2019, among, *inter alios*, the Parent, the Company and the Security Agent, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time.

"*S&P*" means Standard & Poor's Investors Ratings Services or any of its successors or assigns that is a Nationally Recognized Statistical Rating Organization.

"*Scheme*" means an English law governed scheme of arrangement effected under part 26 of the UK Companies Act between the Target and the Target shareholders to implement the Acquisition with or subject to any modification, additions or condition approved by or imposed by the High Court of Justice in England and Wales.

"*Scheme Circular*" means a circular (including any supplementary circular) issued by the Target addressed to the Target shareholders containing, *inter alia*, the details of the Acquisition, the Scheme and the notices convening the meeting of the Target shareholders that was convened pursuant to section 896 of the UK Companies Act for the purpose of considering and approving the Scheme and the general meeting of the shareholders of the Target (and any adjournment thereof) that was convened in connection with the Scheme for the purpose of considering and approving the shareholder resolutions necessary to enable the Target to implement the Acquisition by means of the Scheme.

"*Scheme Court Order*" means the order of the High Court of Justice in England and Wales sanctioning the Scheme pursuant to section 899 of the UK Companies Act.

"*Scheme Documents*" means each of the Scheme Circular and the Scheme Court Order.

"*SEC*" means the U.S. Securities and Exchange Commission.

"*Second Lien Facility Agreement*" means the second lien facility agreement originally entered into on October 16, 2019, among, *inter alios*, the Parent, the Company and the Security Agent, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time.

"*Second Lien Loans*" means the loans extended under the Second Lien Facility Agreement.

"*Securities Act*" means the U.S. Securities Act of 1933, as amended, and the rules and regulations of the SEC promulgated thereunder, as amended.

"*Security Agent*" means Barclays Bank PLC acting as security agent pursuant to the Intercreditor Agreement or such successor Security Agent or any delegate thereof as may be appointed thereunder or any such security agent, delegate or successor thereof pursuant to an Additional Intercreditor Agreement.

"*Senior Bridge Loans*" means any loans extended under the Senior Bridge Facilities Agreement.

"*Senior Bridge Facilities Agreement*" means the senior bridge facilities agreement originally entered into on July 17, 2019, among, inter alios, the Parent, the Company and the Security Agent, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time.

"*Senior Indebtedness*" means any Indebtedness of the Issuer or any Guarantor that ranks at least *pari passu* in right of payment with the Notes and is not secured by a Lien.

"*Senior Management*" means the officers, directors, and other current or former members of senior management of the Parent or any of its Subsidiaries, who at any date beneficially own or have the right to acquire, directly or indirectly, Capital Stock of the Parent or any Holding Entity.

"*Senior Secured Indebtedness*" means, with respect to any Person as of any date of determination, any Indebtedness that is Incurred under the first and second paragraphs of the covenant described under "*—Certain Covenants—Limitation on Indebtedness,*" in each case, secured by a Lien on the Collateral that is at least *pari passu* with the Liens securing the Notes and/or the Senior Term Loans after giving effect to any recovery of proceeds under any intercreditor or priority agreement.

"*Senior Term Facilities Agreement*" means the senior term facilities agreement originally entered into on July 17, 2019, among, *inter alios*, the Parent, the Company and the Security Agent, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time.

"*Senior Term Loans*" means the loans extended under the Senior Term Facilities Agreement.

"*Significant Subsidiary*" means any Restricted Subsidiary that meets any of the following conditions:

(1) the Parent's and its Restricted Subsidiaries' investments in and advances to the Restricted Subsidiary exceed 10% of the Total Assets of the Parent and its Restricted Subsidiaries on a consolidated basis as of the end of the most recently completed trading year;

(2) the Parent's and its Restricted Subsidiaries' proportionate share of the Total Assets (after intercompany eliminations) of the Restricted Subsidiary exceeds 10% of the Total Assets of the Parent and its Restricted Subsidiaries on a consolidated basis as of the end of the most recently completed trading year; or

(3) the Parent's and its Restricted Subsidiaries' equity in the income from continuing operations before income taxes, extraordinary items and cumulative effect of a change in accounting principle of the Restricted Subsidiary exceeds 10% of such income of the Parent and its Restricted Subsidiaries on a consolidated basis for the most recently completed trading year.

"*Similar Business*" means (a) any businesses, services or activities engaged in by the Parent or any of its Subsidiaries or any Associates on the Acquisition Completion Date and (b) any businesses, services and activities engaged in by the Parent or any of its Subsidiaries or any Associates that are related, complementary, incidental, ancillary or similar to any of the foregoing or are extensions or developments of any thereof.

"*Specified Change of Control Event*" means the occurrence of any event that would constitute a Change of Control pursuant to the definition thereof; *provided* that the Consolidated Leverage Ratio would have been less than 5.50 to 1.00 immediately prior to the occurrence of such event and immediately thereafter and giving pro forma effect thereto. Notwithstanding the foregoing, only one Specified Change of Control Event shall be permitted under the Indenture after the Issue Date; *provided, further*, that when calculating the Consolidated Leverage Ratio of the Parent for the purposes of this definition, the Parent shall be entitled at its option to make such calculations as it would if making calculations of baskets or ratios in connection with a Limited Condition Transaction, and the date of determination of the Consolidated Leverage Ratio of the Parent shall, upon such election by the Parent, be the date of the Definitive Agreements in respect of such event with such pro forma adjustments as are appropriate and consistent with the pro forma provisions set forth in the definition of Consolidated Leverage Ratio after giving effect to such event and the other transactions to be entered into in connection therewith (including any incurrence of Indebtedness and the use of proceeds thereof) as if they occurred at the beginning of the applicable period for purposes of determining the ability for such event to qualify as a Specified Change of Control Event.

"*Specified Transaction*" means, with respect to any period, any Investment, disposal, Incurrence of Indebtedness, refinancing, prepayment or repayment of Indebtedness, Restricted Payment, Subsidiary designation, restructuring, other strategic initiative or other action (including, for the avoidance of doubt, the entering into of any new contractual arrangement) of the Parent or any Restricted Subsidiary (including for this purpose any Person that became a Restricted Subsidiary or was merged or otherwise combined with or into the Parent or any Restricted Subsidiary since the beginning of the relevant period).

"*Standard Securitization Undertakings*" means representations, warranties, covenants, indemnities and guarantees of performance entered into by the Parent or any Subsidiary of the Parent which the Board of

Directors or an Officer of the Parent has determined in good faith to be customary in a Receivables Financing, including those relating to the servicing of the assets of a Receivables Subsidiary, it being understood that any Receivables Repurchase Obligation shall be deemed to be a Standard Securitization Undertaking.

"*Stated Maturity*" means, with respect to any security, loan or financial instrument the date specified in such security, loan or financial instrument as the fixed date on which the payment of principal of such security, loan or financial instrument is due and payable, including pursuant to any mandatory redemption provision, but shall not include any Contingent Obligations to repay, redeem or repurchase any such principal prior to the date originally scheduled for the payment thereof.

"*Sterling Equivalent*" means, with respect to any monetary amount in a currency other than pound sterling, at any time of determination thereof by the Parent or the Trustee, the amount of pound sterling obtained by converting such currency other than pound sterling involved in such computation into pound sterling at the spot rate for the purchase of pound sterling with the applicable currency other than pound sterling as published in The Financial Times in the "*Currency Rates*" section (or, if The Financial Times is no longer published, or if such information is no longer available in The Financial Times, such source as may be selected in good faith by the Board of Directors or an Officer of the Parent) on the date of such determination.

"*Subordinated Indebtedness*" means, with respect to any Person, any Indebtedness (whether outstanding on the Closing Date or thereafter Incurred and including the Second Lien Loans) which is expressly subordinated in right of payment to the Notes and any Guarantee pursuant to a written agreement (which, for the avoidance of doubt, will not include the Notes, or any Pari Passu Indebtedness and, for the purposes of the Indenture, Indebtedness shall not be considered subordinated in right of payment solely because it is unsecured, or secured on a junior basis to or entitled to proceeds from security enforcement after, other Indebtedness).

"*Subordinated Shareholder Funding*" means, collectively, (i) the Parent's existing preference shares and shareholder loans as of the date of the Revolving Facilities Agreement, (ii) any funds provided to the Parent by any Holding Entity, any Affiliate of any Holding Entity or any Permitted Holder or any Affiliate thereof, in exchange for or pursuant to any security, instrument or agreement other than Capital Stock, in each case issued to and held by a Holding Entity or a Permitted Holder, or (iii) any investment by a Management Investor pursuant to an MEP, in exchange for or pursuant to any security, instrument or agreement other than Capital Stock, together with any such security, instrument or agreement and any other security or instrument other than Capital Stock issued in payment of any obligation under any Subordinated Shareholder Funding; *provided, however*, that such Subordinated Shareholder Funding, in each case:

(1) does not mature or require any amortization, redemption or other repayment of principal or any sinking fund payment prior to the first anniversary of the Stated Maturity of the Notes (other than through conversion or exchange of such funding into Capital Stock (other than Disqualified Stock) of the Parent or any funding meeting the requirements of this definition) or the making of any such payment prior to the date that is six months following the Stated Maturity of the Notes is restricted by the provisions of the Indenture as a "*Restricted Payment*";

(2) does not require, prior to the first anniversary of the Stated Maturity of the Notes, payment of cash interest, cash withholding amounts or other cash gross-ups, or any similar cash amounts;

(3) contains no change of control or similar provisions and does not accelerate and has no right to declare a default or event of default or take any enforcement action or otherwise require any cash payment, in each case, prior to the first anniversary of the Stated Maturity of the Notes;

(4) does not provide for or require any security interest or encumbrance over any asset of the Parent or any of its Subsidiaries; and

(5) pursuant to its terms is fully subordinated and junior in right of payment to the Notes pursuant to subordination, payment blockage and enforcement limitation terms which are customary in all material respects for similar funding.

"*Subsidiary*" means, with respect to any Person:

(1) any corporation, association, or other business entity (other than a partnership, joint venture, limited liability company or similar entity) of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of

directors, managers or trustees thereof is at the time of determination owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof; or

(2) any partnership, joint venture, limited liability company or similar entity of which:

(a) more than 50% of the capital accounts, distribution rights, total equity and voting interests or general or limited partnership interests, as applicable, are owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof whether in the form of membership, general, special or limited partnership interests or otherwise; and

(b) such Person or any Subsidiary of such Person is a controlling general partner or otherwise controls such entity.

"*Successor Company*" means, with respect to any Person (other than a Holding Entity), the resulting, surviving or transferee Person and, with respect to a Holding Entity, means a Successor Holding Company.

"*Successor Holding Company*" means, with respect to a Holding Entity, any other Person of which more than 50% of the total voting power of the Voting Stock, at the time such Holding Entity becomes a Subsidiary of such other Person, is "beneficially owned" (as such term is defined in Rules 13d 3 and 13d 5 under the Exchange Act (as in effect on the Closing Date)) by one or more other Persons that, immediately prior to such Holding Entity becoming a Subsidiary of such other Person, "beneficially owned" more than 50% of the total voting power of the Voting Stock of such Holding Entity.

"*Target*" means Ei Group plc, a public limited company incorporated under the laws of England and Wales having company number 02562808, which was reregistered as a private limited company under the laws of England and Wales on March 3, 2020.

"*TARGET2*" means the second generation trans-European automated real time gross settlement express transfer payment system.

"*Tax Sharing Agreement*" means any fiscal unity arising under relevant Tax laws, and any Tax sharing or profit and loss pooling, tax loss transfer or other similar or equivalent agreement with customary or arm's-length terms entered into with any Holding Entity or Unrestricted Subsidiary, as the same may be amended, supplemented, waived or otherwise modified from time to time in accordance with the terms thereof and of the Indenture.

"*Taxes*" means all present and future taxes, levies, imposts, deductions, charges, duties, assessments and withholdings and any charges of a similar nature (including interest, penalties and other liabilities with respect thereto) that are imposed or levied by any government or other taxing authority.

"*TDR Capital*" means TDR Capital LLP and its successors and assigns.

"*Temporary Cash Investments*" means any of the following:

(1) any investment in

(a) direct obligations of, or obligations Guaranteed by, (i) any Permissible Jurisdiction, (ii) any country in whose currency funds are being held specifically pending application in the making of an investment or capital expenditure by the Parent or a Restricted Subsidiary in that country with such funds, or (iii) or any agency or instrumentality of any such country or member state; or

(b) direct obligations of any country recognized by the United States of America, France or the United Kingdom rated at least "*A*" by S&P or "*A-1*" by Moody's (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization);

(2) overnight bank deposits, and investments in time deposit accounts, certificates of deposit, bankers' acceptances and money market deposits (or, with respect to foreign banks, similar instruments) maturing not more than one year after the date of acquisition thereof (or, if later, after the date of calculation under the Indenture) issued by:

(a) any lender under the Revolving Facilities Agreement,

(b) any institution authorized to operate as a bank in any of the countries or member states referred to in clause (1)(a) above, or

(c) any bank or trust company organized under the laws of any such country or member state or any political subdivision thereof, in each case, having capital and surplus aggregating in excess of

£250 million (or the foreign currency equivalent thereof) and whose long-term debt is rated at least "*A*" by S&P or "*A-2*" by Moody's (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization) at the time such Investment is made;

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) or (2) above entered into with a Person meeting the qualifications described in clause (2) above;

(4) Investments in commercial paper, maturing not more than 270 days after the date of acquisition, issued by a Person (other than the Parent or any of its Subsidiaries), with a rating at the time as of which any Investment therein is made of "*P-2*" (or higher) according to Moody's or "*A-2*" (or higher) according to S&P (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization);

(5) Investments in securities maturing not more than one year after the date of acquisition issued or fully Guaranteed by any Permissible Jurisdiction or any agency or instrumentality thereof, and rated at least "*BBB*" by S&P or "*Baa3*" by Moody's (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization);

(6) bills of exchange issued in any Permissible Jurisdiction, in each case, eligible for rediscount at the relevant central bank and accepted by a bank (or any dematerialized equivalent);

(7) any money market deposit accounts issued or offered by a commercial bank organized under the laws of a country that is a member of the Organization for Economic Co-operation and Development, in each case, having capital and surplus in excess of £250 million (or the foreign currency equivalent thereof) or whose long term debt is rated at least "*A*" by S&P or "*A2*" by Moody's (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization) at the time such Investment is made;

(8) investment funds investing 95% of their assets in securities of the type described in clauses (1) through (7) above (which funds may also hold reasonable amounts of cash pending investment and/or distribution); and

(9) investments in money market funds complying with the risk limiting conditions of Rule 2a-7 (or any successor rule) of the SEC under the U.S. Investment Company Act of 1940, as amended.

"*Total Assets*" means the consolidated total assets of the Parent and its Restricted Subsidiaries in accordance with IFRS as shown on the most recent balance sheet of such Person.

"*Transaction Security Documents*" means the security agreements, pledge agreements, collateral assignments, and any other instrument and document executed and delivered pursuant to the Indenture or otherwise or any of the foregoing, as the same may be amended, supplemented or otherwise modified from time to time, creating the security interests in the Collateral as contemplated by the Indenture.

"*Transactions*" means the Acquisition and the transactions associated with it, the payment of consideration under the Acquisition Documents, the entry into of the Acquisition Documents, the Senior Bridge Facilities Agreement, the Second Lien Facility Agreement (and the second lien bridge facility agreement that it replaced), the Senior Term Facilities Agreement, the Revolving Facilities Agreement, the PIK Facility Agreement, the Indenture and the issuance of the Notes, the entry into associated documentation including the Transaction Security Documents, the use of proceeds of the various financing steps and any step or other matter set out in the structure paper prepared by PricewaterhouseCoopers LLP and entitled "Project Ecuador Structure Paper".

"*UK Companies Act*" means the United Kingdom Companies Act 2006, as may be amended from time to time.

"*UK Government Obligations*" means direct obligations of, or obligations guaranteed by, the United Kingdom, and the payment for which the United Kingdom pledges its full faith and credit.

"*Uniform Commercial Code*" means the New York Uniform Commercial Code.

"*Unique Group*" means Unique Pubs Limited and its Subsidiaries.

"*Unique Liquidity Facility*" means the liquidity facility agreement dated September 20, 2002, as amended and restated on February 25, 2005, and as in effect on the date of the Revolving Facilities Agreement, entered into between, among others, The Unique Pub Finance Company plc, the Royal Bank of Scotland plc and the trustee in respect of the Unique Securitized Notes and any other replacement or additional liquidity facility made available to a member of the Unique Group for the purpose of meeting any liquidity shortfall in respect of amounts of interest, principal and other amounts falling due with respect to the Unique Securitized Notes or any Refinancing Indebtedness in respect of the Unique Securitized Notes Incurred by a member of the Unique Group.

"*Unique Securitized Notes*" means the following notes outstanding as of the date of the Revolving Facilities Agreement issued by a member of the Unique Group: Class A3 6.542% Notes due over a period to March 2021; Class A4 5.659% Notes due over a period to June 2027; Class M 7.395% Notes due over a period to March 2024; Class N 6.464% Notes due over a period to March 2032, and any future issuances of securitized notes by a member of the Unique Group.

"*Unrestricted Subsidiary*" means:

(1) any Subsidiary of the Parent that at the time of determination is an Unrestricted Subsidiary (as designated by the Board of Directors of the Parent in the manner provided below); and

(2) any Subsidiary of an Unrestricted Subsidiary.

The Board of Directors of the Parent may designate any Subsidiary of the Parent (including any newly acquired or newly formed Subsidiary or a Person becoming a Subsidiary through merger, consolidation or other business combination transaction, or Investment therein), to be an Unrestricted Subsidiary only if:

(1) such Subsidiary or any of its Subsidiaries does not own any Capital Stock or Indebtedness of, or own or hold any Lien on any property of, the Parent or any other Subsidiary of the Parent which is not a Subsidiary of the Subsidiary to be so designated or otherwise an Unrestricted Subsidiary; and

(2) such designation and the Investment of the Parent in such Subsidiary complies with "*—Certain Covenants—Limitation on Restricted Payments.*"

In the event of any designation by the Board of Directors of the parent of a Subsidiary as an Unrestricted Subsidiary, the Parent shall deliver to the Trustee an Officer's Certificate certifying that such designation complies with the applicable foregoing conditions.

The Board of Directors of the Parent may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that immediately after giving effect to such designation (1) no Default or Event of Default would result therefrom and (2)(x) the Parent could Incur at least £1.00 of additional Indebtedness under the first paragraph of the covenant described under "*—Certain Covenants—Limitation on Indebtedness*" or (y) the Fixed Charge Coverage Ratio for the Parent and its Restricted Subsidiaries for the most recently ended four full trading quarters for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is Incurred would not be less than it was immediately prior to giving effect to such designation, in each case, on a pro forma basis taking into account such designation. Any such designation by the Board of Directors of the Parent shall be evidenced to the Trustee by promptly filing with the Trustee a copy of the resolution of the Board of Directors of the Parent giving effect to such designation or an Officer's Certificate certifying that such designation complied with or satisfied the foregoing provisions.

"*Voting Stock*" of a Person means all classes of Capital Stock of such Person then outstanding and normally entitled to vote in the election of directors.

BOOK-ENTRY, DELIVERY AND FORM

General

The New Notes sold to qualified institutional buyers in reliance on Rule 144A under the Securities Act will initially be represented by a global note in registered form without interest coupons attached (the "Rule 144A Global Note"). The New Notes sold to persons who are not U.S. persons and are outside the United States in reliance on Regulation S under the Securities Act will initially be represented by a global note in registered form without interest coupons attached (the "Regulation S Global Note" and, together with the Rule 144A Global Note, the "Global Notes"). The Global Notes will be deposited, on the closing date, with a common depositary and registered in the name of the nominee of the common depositary for the accounts of Euroclear and Clearstream.

Ownership of interests in the Rule 144A Global Note ("Rule 144A Book-Entry Interests") and ownership of interests in the Regulation S Global Note (the "Regulation S Book-Entry Interests" and, together with the Rule 144A Book-Entry Interests, the "Book-Entry Interests") will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that hold interests through such participants. Euroclear and Clearstream will hold interests in the Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries. Except under the limited circumstances described below, Book-Entry Interests will not be issued in definitive form.

Book-Entry Interests will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream and their participants. The laws of some jurisdictions, including certain states of the United States, may require that certain purchasers of securities take physical delivery of those securities in definitive form. The foregoing limitations may impair your ability to own, transfer or pledge Book-Entry Interests. In addition, while the New Notes are in global form, holders of Book-Entry Interests will not have the New Notes registered in their names, will not receive physical delivery of the New Notes in certificated form and will not be considered the owners or "holders" of the New Notes for any purpose.

So long as the New Notes are held in global form, the common depositary for Euroclear and/or Clearstream (or its nominee), as applicable, will be considered the sole holders of the Global Notes for all purposes under the Indenture. In addition, participants must rely on the procedures of Euroclear and Clearstream, and indirect participants must rely on the procedures of Euroclear and Clearstream and the participants through which they own Book-Entry Interests, to transfer their interests or to exercise any rights of holders of the New Notes under the Indenture.

Neither we, the Trustee, the Paying Agent, the Transfer Agent, the Registrar nor any of our or their respective agents will have any responsibility, or be liable, for any aspect of the records relating to the Book-Entry Interests.

Definitive Registered Notes

Under the terms of the Indenture, owners of the Book-Entry Interests will receive definitive Notes in registered form (the "Definitive Registered Notes"):

(1) if Euroclear or Clearstream notifies us that it is unwilling or unable to continue to act as depositary and a successor depositary is not appointed by the Issuer within 120 days; or

(2) if the owner of a Book-Entry Interest requests such exchange in writing delivered through Euroclear or Clearstream following an Event of Default under the Indenture and enforcement action is being taken in respect thereof under the Indenture.

Euroclear and Clearstream have advised us that upon request by an owner of a Book-Entry Interest described in the immediately preceding clause (2), their current procedure is to request that we issue or cause to be issued New Notes in definitive registered form to all owners of Book-Entry Interests.

In such an event, the Issuer will issue Definitive Registered Notes, registered in the name or names and issued in any approved denominations, requested by or on behalf of Euroclear, Clearstream or us, as applicable (in accordance with their respective customary procedures and based upon directions received from participants reflecting the beneficial ownership of Book-Entry Interests), and such Definitive Registered Notes will bear the restrictive legend as provided in the Indenture, unless that legend is not required by the Indenture or applicable law.

To the extent permitted by law, we, the Trustee, the Paying Agent, the Transfer Agent and the Registrar shall be entitled to treat the registered holder of any Global Note as the absolute owner thereof and no person will be liable for treating the registered holder as such. Ownership of the Global Notes will be evidenced through registration from time to time at the registered office of the Issuer, and such registration is a means of evidencing title to the New Notes.

We will not impose any fees or other charges in respect of the New Notes; however, owners of the Book-Entry Interests may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear and Clearstream.

Redemption of the Global Notes

In the event that any Global Note (or any portion thereof) is redeemed, Euroclear and/or Clearstream, as applicable, will redeem an equal amount of the Book-Entry Interests in such Global Note from the amount received by them in respect of the redemption of such Global Note. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by Euroclear and Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). We understand that, under the existing practices of Euroclear and Clearstream, if fewer than all of the New Notes are to be redeemed at any time, Euroclear and Clearstream will credit their participants' accounts on a proportionate basis (with adjustments to prevent fractions), by lot or on such other basis as they deem fair and appropriate, provided, however, that no Book-Entry Interest of less than £100,000 or €100,000 principal amount may be redeemed in part.

Payments on Global Notes

We will make payments of any amounts owing in respect of the Global Notes (including principal, premium, if any, interest and additional amounts, if any) to the Paying Agent for onward payment to Euroclear and Clearstream. Euroclear and Clearstream will distribute such payments to participants in accordance with their customary procedures. We will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under "Description of the Notes—Additional Amounts." If any such deduction or withholding is required to be made, then, to the extent described under "Description of the Notes—Additional Amounts" above, we will pay additional amounts as may be necessary in order for the net amounts received by any holder of the Global Notes or owner of Book-Entry Interests after such deduction or withholding to equal the net amounts that such holder or owner would have otherwise received in respect of such Global Note or Book-Entry Interest, as the case may be, absent such withholding or deduction. We expect that standing customer instructions and customary practices will govern payments by participants to owners of Book-Entry Interests held through such participants.

Under the terms of the Indenture, we, the Trustee, the Paying Agent, the Registrar and the Transfer Agent will treat the registered holders of the Global Notes (*i.e.*, the common depositary for Euroclear or Clearstream (or its nominee)) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of us, the Trustee or any of their agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest or for maintaining, supervising or reviewing the records of Euroclear or Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest;
- Euroclear, Clearstream or any participant or indirect participant; or
- the records of the common depositary.

Currency of Payment for the Global Notes

The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Global Notes will be paid to holders of interests to such New Notes through Euroclear or Clearstream in euro for the Floating Rate Notes and pound sterling for the New Fixed Rate Notes.

Action by Owners of Book-Entry Interests

Euroclear and Clearstream have advised us that they will take any action permitted to be taken by a holder of New Notes (including the presentation of New Notes for exchange as described above) only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of New Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Notes. However, if there is an Event of Default under the New Notes, Euroclear and Clearstream, at the request of the holders of the New Notes, reserve the right to exchange the Global Notes for Definitive Registered Notes, and to distribute such Definitive Registered Notes to their participants.

Transfers

Transfers between participants in Euroclear or Clearstream will be effected in accordance with Euroclear's or Clearstream's rules and will be settled in immediately available funds. If a holder of New Notes requires physical delivery of Definitive Registered Notes for any reason, including to sell New Notes to persons in states which require physical delivery of such securities or to pledge such securities, such holder of New Notes must transfer its interests in the Global Notes in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the procedures set forth in the Indenture.

The Global Notes will bear a legend to the effect set forth under "Transfer Restrictions." Book-Entry Interests in the Global Notes will be subject to the restrictions on transfers and certification requirements discussed under "Transfer Restrictions."

Transfers of Rule 144A Book-Entry Interests to persons wishing to take delivery of Rule 144A Book-Entry Interests will at all times be subject to such transfer restrictions.

Rule 144A Book-Entry Interests may be transferred to a person who takes delivery in the form of a Regulation S Book-Entry Interest only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 under the Securities Act or any other exemption (if available under the Securities Act).

Regulation S Book-Entry Interests may be transferred to a person who takes delivery in the form of a Rule 144A Book-Entry Interest only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a "qualified institutional buyer" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under "Transfer Restrictions" and in accordance with any applicable securities laws of any other jurisdiction.

In connection with transfers involving an exchange of a Regulation S Book-Entry Interest for a Rule 144A Book-Entry Interest, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S Global Note and a corresponding increase in the principal amount of the Rule 144A Global Note.

Definitive Registered Notes may be transferred and exchanged for Book- Entry Interests in a Global Note only as described in the Indenture and, if required, only if the transferor first delivers to the Trustee a written certificate (in the form provided in the Indenture) to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such New Notes. See "Transfer Restrictions."

Any Book-Entry Interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a Book-Entry Interest in any other Global Note will, upon transfer, cease to be a Book-Entry Interest in the first mentioned Global Note and become a Book-Entry Interest in such other Global Note, and accordingly will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in such other Global Note for as long as it remains such a Book-Entry Interest.

Information Concerning Euroclear and Clearstream

All Book-Entry Interests will be subject to the operations and procedures of Euroclear and Clearstream, as applicable. We provide the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of the settlement system are controlled by the settlement system and may be changed at any time. None of the Issuer, the Trustee, the Paying Agent, the Transfer Agent, the Registrar or the Initial Purchasers are responsible for those operations or procedures.

We understand as follows with respect to Euroclear and Clearstream: Euroclear and Clearstream hold securities for participating organizations. They facilitate the clearance and settlement of securities transactions between their participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide various services to their participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear and Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear and Clearstream participant, either directly or indirectly.

Because Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the Euroclear and/or Clearstream system, or otherwise take actions in respect of such interest, may be limited by the lack of a definitive certificate for that interest. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such persons may be limited. In addition, owners of beneficial interests through the Euroclear or Clearstream systems will receive distributions attributable to the Global Notes only through Euroclear or Clearstream participants.

Global Clearance and Settlement Under the Book-Entry System

The New Notes represented by the Global Notes are expected to be listed on the Official List of the Exchange for the listing of and permission to deal in the New Notes on the Official List of the Exchange. Transfers of interests in the Global Notes between participants in Euroclear or Clearstream will be effected in the ordinary way in accordance with their respective system's rules and operating procedures.

Although Euroclear and Clearstream currently follow the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants in Euroclear or Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or modified at any time. None of us, any guarantor, the Trustee or our or their respective agents will have any responsibility for the performance by Euroclear, Clearstream or their participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Initial Settlement

Initial settlement for the Floating Rate Notes will be made in euro. Initial settlement for the New Fixed Rate Notes will be made in pound sterling. Book-Entry Interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional bonds in registered form. Book-Entry Interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value of the settlement date.

Secondary Market Trading

The Book-Entry Interests will trade through participants of Euroclear and Clearstream and will settle in same-day funds. Since the purchase determines the place of delivery, it is important to establish at the time of trading of any Book-Entry Interests where both the purchaser's and the seller's accounts are located to ensure that settlement can be made on the desired value date.

TAX CONSIDERATIONS

If you are a prospective investor, you should consult your tax advisor as to the possible tax consequences of purchasing, holding or selling any New Notes under the laws of your country of citizenship, residence or domicile, including the effect of any local taxes applicable to you. The discussions that follow do not purport to be a comprehensive description of all tax considerations that may be relevant to a decision to purchase, hold or sell New Notes. In particular, these discussions do not consider any specific facts or circumstances that may apply to you. The discussions that follow for each jurisdiction are based upon the applicable laws and interpretations thereof as in effect as of the date of this Offering Memorandum. These tax laws and interpretations are subject to change, possibly with retroactive or retrospective effect

Certain United States Federal Income Tax Consequences

The following is a summary of certain United States federal income tax consequences of the purchase, ownership and disposition of the New Notes as of the date hereof. This summary deals only with the New Notes that are held as capital assets for United States federal income tax purposes by a U.S. holder (as defined below) who acquires the New Notes for cash pursuant to this Offering at their "issue price" (the first price at which a substantial amount of the Notes is sold for money to investors, excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriter, placement agent or wholesaler).

As used herein, a "U.S. holder" means a beneficial owner of the New Notes that is for United States federal income tax purposes any of the following:

- an individual citizen or resident of the United States;
- a corporation (or any other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury Regulations ("Treasury Regulations") to be treated as a United States person.

This summary is based upon provisions of the United States Internal Revenue Code of 1986, as amended (the "Code"), and Treasury Regulations, rulings and judicial decisions as of the date hereof. Those authorities may be changed, perhaps retroactively, so as to result in United States federal income tax consequences different from those summarized below. This summary does not address all aspects of United States federal income taxation and does not address the effects of the Medicare contribution tax on net investment income or state, local, non-United States or other tax considerations that may be relevant to U.S. holders in light of their particular circumstances. In addition, it does not represent a detailed description of the United States federal income tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws. For example, this summary does not address:

- tax consequences to holders who may be subject to special tax treatment, such as brokers or dealers in securities or currencies, traders in securities that elect to use the mark-to-market method of accounting for their securities, financial institutions, regulated investment companies, real estate investment trusts, partnerships or other pass-through entities for United States federal income tax purposes (or an investor in such entity), tax-exempt entities or insurance companies;
- tax consequences to persons holding the New Notes as part of a hedging, integrated, constructive sale or conversion transaction or a straddle;
- tax consequences to U.S. holders whose "functional currency" is not the United States dollar; or
- alternative minimum tax consequences, if any.

If a partnership (or other entity or arrangement treated as a partnership for United States federal income tax purposes) holds the New Notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding the New Notes, you should consult your tax advisors.

If you are considering the purchase of the New Notes, you should consult your tax advisors concerning the particular United States federal income tax consequences to you of the purchase, ownership and disposition of the New Notes, as well as the consequences to you arising under the laws of any other taxing jurisdiction.

IPO Pushdown

An IPO Pushdown could result in a taxable exchange of the New Notes for United States federal income tax purposes, in which case you may recognize gain or loss on the New Notes at such time equal to the difference, if any, between the issue price of the new notes (as determined for United States federal income tax purposes), and your tax basis in the New Notes, and have a new holding period and basis in the New Notes. Any such gain or loss will be taxed under the rules described below under "—Sale, Exchange, Redemption, Retirement and Other Taxable Disposition of the New Notes." If the fair market value of the New Notes at the time of such taxable exchange were lower than the stated redemption price by more than a de minimis amount, you may be required to include the difference as ordinary income as it accrues in advance of the receipt of cash. You should consult your tax advisors regarding the potential United States federal income tax consequences to you in the event of an IPO Pushdown.

No Fungibility of New Fixed Rate Notes with the Existing Fixed Rate Notes

The New Fixed Rate Notes are not being issued in a "qualified reopening" of the Existing Fixed Rate Notes for United States federal income tax purposes. Accordingly, the New Fixed Rate Notes offered hereby will not be part of the same issue as the Existing Fixed Rate Notes and will not be treated as having the same issue date, issue price or adjusted issue price as the Existing Fixed Rate Notes or otherwise be treated as fungible with the Existing Fixed Rate Notes for United States federal income tax purposes.

Payments of Stated Interest

Subject to the foreign currency rules discussed below, payment of stated interest on a New Note will generally be taxable to you as ordinary income at the time it is paid or accrued in accordance with your method of accounting for United States federal income tax purposes. In addition to stated interest on the New Notes (which includes any foreign tax withheld), you will be required to include in income any additional amounts paid in respect of any foreign tax withheld. You may be entitled to deduct or credit any foreign tax withheld, subject to certain limitations (including that the election to deduct or credit foreign taxes applies to all of your applicable foreign taxes for a particular tax year). Stated interest income (including any additional amounts) on a New Note generally will be considered foreign source income and, for purposes of the United States foreign tax credit, generally will be considered passive category income. You will generally be denied a foreign tax credit for foreign taxes imposed with respect to the New Notes where you do not meet a minimum holding period requirement during which you are not protected from risk of loss. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

Interest on the New Fixed Rate Notes will be payable in pound sterling and interest on the Floating Rate Notes will be payable in euros. If you use the cash basis method of accounting for United States federal income tax purposes, you will be required to include in income the United States dollar value of the interest received, determined by translating the pound sterling or euros (as applicable) received at the spot rate on the date such payment is received regardless of whether the payment is in fact converted into United States dollars. You will not recognize exchange gain or loss with respect to the receipt of such payment.

If you use the accrual method of accounting for United States federal income tax purposes, you may determine the amount of income recognized with respect to such interest (including any additional amounts) in accordance with either of two methods. Under the first method, you will be required to include in income for each taxable year the United States dollar value of the interest that has accrued during such year, determined by translating such interest at the average rate of exchange for the period or periods during which such interest accrued or, in the case of an accrual period that spans two taxable years of a U.S. holder, the part of the period within the taxable year. Under the second method, you may elect to translate interest income at the spot rate on:

- the last day of the accrual period,
- the last day of the taxable year if the accrual period straddles your taxable year, or
- the date the interest payment is received if such date is within five business days of the end of the accrual period.

If you elect to use the second method, the election must be consistently applied by you to all debt obligations you hold from year to year and cannot be changed without the consent of the United States Internal Revenue Service ("IRS"). You should consult your tax advisor as to the advisability of making the above election.

In addition, upon receipt of an interest payment on a New Note (including, upon the sale of a New Note, the receipt of proceeds which include amounts attributable to accrued but unpaid interest previously included in income), you will recognize United States source ordinary income or loss in an amount equal to the difference, if any, between the United States dollar value of such payment (determined by translating the pound sterling or euros received at the spot rate on the date such payment is received) and the United States dollar value of the interest income you previously included in income with respect to such payment (as determined above).

Original Issue Discount of Floating Rate Notes

A Floating Rate Note with an "issue price" (as defined above) that is less than its stated principal amount generally will be treated as issued with OID for United States federal income tax purposes in an amount equal to that difference, if that difference is at least 0.25% of the stated principal amount multiplied by the number of complete years to maturity. If a Floating Rate Note is issued with OID, you generally must include the OID in gross income (as foreign source ordinary income), on a constant yield to maturity basis, in advance of the receipt of the cash payment thereof and regardless of your regular method of accounting for United States federal income tax purposes.

The amount of OID, if any, that you must include in income for any taxable year with respect to a Floating Rate Note will generally equal the sum of the "daily portions" of OID with respect to the Floating Rate Note for each day during such taxable year on which you held that Floating Rate Note ("accrued OID"). The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. The "accrual period" may be of any length and may vary in length over the term of the Floating Rate Note, provided that each accrual period is no longer than one year and each scheduled payment of principal and interest occurs on the first day or the final day of an accrual period. The amount of OID allocable to any accrual period other than the final accrual period is an amount equal to the excess, if any, of

- the Floating Rate Note's "adjusted issue price" at the beginning of the accrual period multiplied by its yield to maturity, determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period, over
- the aggregate of any stated interest allocable to the accrual period.

OID allocable to a final accrual period is the difference between the stated principal amount and the adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating OID for an initial short accrual period. The "adjusted issue price" of a Floating Rate Note at the beginning of any accrual period is equal to its issue price increased by the accrued OID, if any, for each prior accrual period. Under these rules, you generally will have to include in income increasingly greater amounts of OID in successive accrual periods.

Since the Floating Rate Notes have a floating rate of stated interest, the "yield to maturity" will be determined, solely for purposes of calculating the accrual of OID, as though a Floating Rate Note will bearinterest in all periods at a fixed rate generally equal to the rate that would be applicable to stated interest payments on a Floating Rate Note on its date of issue. To the extent the stated interest actually accrued or paid during an accrual period exceeds (or is less than) the stated interest to be accrued or paid during the accrual period based on such fixed rate on the date of issue, such difference will be accounted for United States federal income tax purposes as an adjustment to stated interest and will have no effect on the computation of OID.

OID for the Floating Rate Notes will be determined for any accrual period in euros and then translated into United States dollars in the same manner as stated interest income accrued by a holder on the accrual basis, as described above under "—Payments of Stated Interest." You will recognize exchange gain or loss when OID is paid (including, upon the sale or other taxable disposition of a Floating Rate Note, the receipt of amounts attributable to OID previously included in income) to the extent of the difference between the United States dollar value of such payment (determined by translating the euros received at the spot rate on the date such payment is received) and the United States dollar value of the accrued OID (determined in the same manner as for accrued interest). For these purposes, all receipts on a note will be viewed first, as the receipt of any stated interest payments called for under the terms of the note; second, as receipts of previously accrued OID (to the extent thereof), with payments considered made for the earliest accrual periods first; and third, as the receipt of principal. Exchange gain or loss generally will be treated as United States source ordinary income or loss and generally will not be treated as an adjustment to interest income or expense.

The rules governing OID are complex. You are urged to consult your tax advisors regarding the application of these rules in light of your particular circumstances.

Sale, Exchange, Redemption, Retirement and Other Taxable Disposition of the New Notes

Upon the sale, exchange, redemption, retirement or other taxable disposition of a New Note, you will recognize gain or loss equal to the difference between the amount realized upon the sale, exchange, redemption, retirement or other taxable disposition (less an amount equal to any accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income) and your adjusted tax basis in the New Note. Your adjusted tax basis in the New Note generally will be your United States dollar cost for that New Note, increased, with respect to any Floating Rate Note, by any OID previously included in income. If you purchased your New Note with pound sterling or euros, your cost generally will be the United States dollar value of the pound sterling or euros paid for such New Note determined at the spot rate on the date of such purchase. If your New Note is sold, exchanged, redeemed, retired or otherwise disposed of in a taxable disposition for pound sterling or euros, the amount realized generally will be the United States dollar value of the pound sterling or euros received based on the spot rate in effect on the date of sale, exchange, redemption, retirement or other taxable disposition. If you are a cash method taxpayer and the New Notes are traded on an established securities market, pound sterling or euros paid or received will be translated into United States dollars at the spot rate on the settlement date of the purchase or sale. If you are an accrual method taxpayer, you may elect the same treatment with respect to the purchase and sale of the New Notes traded on an established securities market, provided that the election is applied consistently to all debt instruments from year to year. Such election cannot be changed without the consent of the IRS.

Subject to the foreign currency rules discussed below, your gain or loss will generally be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange, redemption, retirement or other taxable disposition, you have held the New Note for more than one year. Capital gains of non-corporate U.S. holders, including individuals, derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Gain or loss realized by you on the sale, exchange, redemption, retirement or other taxable disposition of a New Note would generally be treated as United States source gain or loss.

A portion of your gain or loss may be treated as exchange gain or loss with respect to the principal amount of a New Note. Exchange gain or loss will be treated as ordinary income or loss and generally will be United States source gain or loss. For these purposes, the principal amount of the New Note is your purchase price for the New Note calculated in pound sterling or euros, as applicable on the date of purchase and the amount of exchange gain or loss recognized is equal to the difference between (i) the United States dollar value of the principal amount determined on the date of the sale, exchange, redemption, retirement or other taxable disposition of the New Note and (ii) the United States dollar value of the principal amount determined on the date you purchased the New Note (or, possibly, in the case of cash basis or electing accrual basis U.S. holders, the settlement date of such disposition and/or purchase, provided the New Note is traded on an established securities market). The amount of exchange gain or loss realized on the disposition of a New Note (with respect to both principal and accrued interest) will be limited to the amount of overall gain or loss realized on the disposition of the New Note.

Exchange Gain or Loss with respect to Pound Sterling or Euros

Your tax basis in the pound sterling or euros received as interest on a New Note or on the sale, exchange, redemption, retirement or other taxable disposition of a New Note will be equal to the United States dollar value of the pound sterling or euros, as applicable, determined at the time of receipt. Any gain or loss recognized by you on a sale, exchange or other taxable disposition of the pound sterling or euros will be ordinary income or loss and generally will be United States source gain or loss.

Additional Notes

The Issuer may issue additional Notes under the Indenture. Even if these additional Notes are treated as part of the same series as the New Notes for non-tax purposes, in some cases they may be treated as a separate series for U.S. federal income tax purposes. For instance, additional notes sold pursuant to Regulation S from time to time may be issued with the same ISIN, Common Code, CUSIP or other securities identification number as the applicable series of notes previously issued under the Indenture without being fungible with such series of notes for U.S. federal income tax purposes. If you are a U.S. holder considering the purchase of Notes sold pursuant to Regulation S, you should consult your tax advisors concerning the particular U.S. federal income tax consequences to you of the purchase, ownership and disposition of such Notes, including with respect to the potential issuance of additional Notes that are not fungible with the applicable series of initial notes issued under the Indenture for U.S. federal income tax purposes, but which nevertheless are not capable of being separately identified.

Reportable Transactions

Treasury Regulations meant to require the reporting of certain tax shelter transactions could be interpreted to cover transactions generally not regarded as tax shelters, including certain foreign currency transactions. Under the Treasury Regulations, certain transactions are required to be reported to the IRS including, in certain circumstances, a sale, exchange, retirement, redemption or other taxable disposition of a foreign currency note, such as a New Note, or foreign currency received in respect of a foreign currency note, to the extent that such sale, exchange, retirement, redemption or other taxable disposition results in a tax loss in excess of a threshold amount. If you are considering the purchase of the New Notes, you should consult with your tax advisors to determine the tax return obligations, if any, with respect to an investment in the New Notes, including any requirement to file IRS Form 8886 (Reportable Transaction Disclosure Statement).

Backup Withholding and Information Reporting

Generally, information reporting requirements will apply to all payments of principal and interest (including accruals of OID) on a New Note, or the proceeds from the sale of a New Note, unless you are an exempt recipient. Additionally, if you fail to provide your taxpayer identification number, or in the case of interest payments fail either to report in full dividend and interest income or to make certain certifications, you may be subject to backup withholding.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against your United States federal income tax liability provided the required information is timely furnished to the IRS. You are urged to consult your tax advisors regarding backup withholding and information reporting requirements relating to your ownership and disposition of the New Notes.

Foreign Financial Asset Reporting

Certain U.S. holders are required to report information relating to an interest in the New Notes, subject to certain exceptions (including an exception for the New Notes held in accounts maintained by certain financial institutions), by attaching a complete IRS Form 8938, Statement of Specified Financial Assets, with their tax return for each year in which they hold an interest in the New Notes. You are urged to consult your tax advisors regarding the application of these rules to your ownership of the New Notes and potential penalties for failure to comply.

Certain United Kingdom Taxation Considerations

The comments below are of a general nature and are not intended to be an exhaustive summary of all United Kingdom tax considerations relating to the New Notes. They are based on current United Kingdom tax law as applied in England and Wales and HM Revenue & Customs ("**HMRC**") practice (which may not be binding on HMRC) relating only to certain aspects of United Kingdom tax, both of which may be subject to change, possibly with retrospective effect. They assume that there will be no substitution of the Issuer or further issues of securities that will form a single series with the New Notes, and do not address the consequences of any such substitution or further issue (notwithstanding that such substitution or further issue may be permitted by the terms and conditions of the New Notes). They do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. The United Kingdom tax treatment of prospective holders of New Notes depends on their individual circumstances and may be subject to change in the future. The comments below relate only to the position of persons who are the absolute beneficial owners of New Notes and any interest payable on their New Notes and who hold New Notes as a capital investment. Certain classes of persons (such as brokers, dealers, certain professional investors or persons connected with the Issuer) may be subject to special rules and the comments below do not apply to such holders of the New Notes. The comments below do not purport to constitute legal or tax advice. Any prospective holders of New Notes who are in doubt as to their own tax position, or who may be subject to tax in a jurisdiction other than the United Kingdom, should consult their professional advisors.

Withholding Tax

Payments of Interest by the Issuer

If and while the New Notes continue to be listed on a "recognised stock exchange" within the meaning of Section 1005 of the Income Tax Act 2007, payments of interest by the Issuer may be made without withholding or deduction for or on account of United Kingdom tax. The Exchange is a recognised stock exchange for these purposes. Securities will be treated for these purposes as listed on the Exchange where they are admitted to trading on the Exchange and are admitted to the Official List of the Exchange in accordance with provisions corresponding to those generally applicable in countries in the EEA.

Interest on the New Notes may also be paid without withholding or deduction for or on account of United Kingdom tax where the Issuer reasonably believes at the time the payment is made that (i) the person beneficially entitled to the interest is a United Kingdom resident company or a non-United Kingdom resident company that carries on a trade in the United Kingdom through a permanent establishment and the payment is one that the non-United Kingdom resident company is required to bring into account when calculating its profits subject to United Kingdom corporation tax or (ii) the person to whom the payment is made is one of the further classes of bodies or persons, and meets any relevant conditions, set out in Sections 935-937 of the Income Tax Act 2007, provided that in either case HMRC has not given a direction, the effect of which is that the payment may not be made without that withholding or deduction.

In most other cases, interest will generally be paid by the Issuer under deduction of United Kingdom tax at the basic rate (currently 20%) unless the Issuer has received a direction to the contrary from HMRC in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

Any premium payable on redemption may be treated as a payment of interest for United Kingdom tax purposes and may accordingly be subject to the United Kingdom withholding tax treatment described above.

If interest were paid under deduction of United Kingdom tax (*e.g.*, if the New Notes are not or cease to be listed on the Exchange), holders of the New Notes who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.

Direct Assessment

The interest has a United Kingdom source for tax purposes and accordingly may be chargeable to United Kingdom tax by direct assessment (including self-assessment) even where paid without withholding or deduction, irrespective of the residence of the holder of the New Notes. However, where the interest is paid without withholding or deduction on account of United Kingdom tax, the interest will not be assessed to United Kingdom tax in the hands of holders (other than certain trustees) who are not resident for tax purposes in the United Kingdom, except where the holder of the New Notes carries on a trade, profession or vocation in the United Kingdom through a branch or agency, or in the case of a corporate holder, carries on a trade through a permanent establishment in the United Kingdom, in connection with which the interest is received or to which the New Notes are attributable, in which case (subject to exemptions for interest received by certain categories of agent) tax may be levied on the United Kingdom branch or agency, or permanent establishment.

Holders of the New Notes should note that the provisions relating to additional amounts referred to in "Description of the Notes—Additional Amounts" above would not apply if HMRC sought to assess directly the person entitled to the relevant interest to United Kingdom tax. However exemption from, or reduction of, such United Kingdom tax liability might be available under an applicable double taxation treaty.

Payments Under a Note Guarantee

The United Kingdom withholding tax treatment of payments by a Guarantor under the terms of a Note Guarantee in respect of interest on the New Notes (or other amounts due under the New Notes other than the repayment of amounts subscribed for the New Notes) is uncertain. In particular, such payments by a Guarantor may not be eligible for the exemption from withholding on account of United Kingdom tax in respect of securities listed on a recognised stock exchange described above in relation to payments of interest by the Issuer. Accordingly, if a Guarantor makes any such payments and they have a United Kingdom source, these may be subject to United Kingdom withholding tax at the basic rate (currently 20%).

Stamp Duty and Stamp Duty Reserve Tax ("SDRT")

No United Kingdom stamp duty or SDRT is payable on the issue of the New Notes, or on a transfer of the New Notes assuming that (i) the interest on the New Notes does not exceed a reasonable commercial return on the nominal amount of the capital and (ii) any right on repayment of the New Notes to an amount which exceeds the nominal amount of the New Notes is reasonably comparable with what is generally repayable (in respect of a similar nominal amount of capital) under the terms of issue of loan capital listed in the Official List of the London Stock Exchange. The Issuer's expectation is that each of conditions (i) and (ii) will be satisfied in the circumstances.

Certain Cayman Islands Taxation Considerations

The comments below are of a general nature based on Cayman Islands laws presently in effect and are not intended to be exhaustive. This is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

The New Notes

Under current Cayman Islands laws:

- payments of interest and principal on the New Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal to any holder of the New Notes, nor will gains derived from the disposal of the New Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax;
- no stamp duty is payable in respect of the issue or transfer of the New Notes, although Cayman Islands stamp duty shall be payable if New Notes are executed in or brought into, or produced before a court of, the Cayman Islands; and
- certificates evidencing the New Notes, in registered form, to which title is not transferable by delivery, should not attract Cayman Islands stamp duty (provided such certificates are not executed in, or brought into, or produced before a court of, the Cayman Islands); however, an instrument transferring title to a Note, if brought to or executed in, or produced before a court of, the Cayman Islands, would be subject to nominal Cayman Islands stamp duty.

Payments Under a Guarantee

Under current Cayman Islands laws, payments made under the terms of a guarantee by a Cayman Islands guarantor will not be subject to taxation in the Cayman Islands and no withholding will be required on any such payments.

LIMITATIONS ON VALIDITY AND ENFORCEABILITY OF THE NOTE GUARANTEES AND SECURITY INTERESTS

The Issuer and the Guarantors are companies incorporated under the laws of the Cayman Islands or England and Wales (the "Obligors"). Set out below is a summary of certain limitations on the enforceability of the Note Guarantees and the security interests, and a brief description of certain aspects of insolvency law, in the Cayman Islands and England and Wales.

Cayman Islands

Fixed and Floating Charges

Security may be created by a Cayman Islands company as a fixed or floating charge over the whole or part of its assets. Under section 142 of the Companies Law (2020 Revision), as amended of the Cayman Islands (the "Companies Law") a creditor who has any such security over the whole, or part of, the assets of a Cayman Islands company is entitled to enforce his security without leave of the court and without reference to the liquidator, notwithstanding that a winding up order has been made with respect to the company.

Fixed-charge security has a number of advantages over floating charge security, including: (a) general costs and expenses (including the liquidator's remuneration) properly incurred in a winding-up are payable out of floating charge assets to the extent the assets of the company available for unsecured creditors generally are otherwise insufficient to meet them in priority to floating charge claims; (b) until the floating charge security crystallizes, a company is, subject to any contractually agreed restrictions, entitled to deal with assets that are subject to floating charge security in the ordinary course of its business, meaning that such assets can be effectively disposed of by the charging company so as to give a third party good title to the assets free of the floating charge; and (c) floating charge security is subject to the claims of preferential creditors (including amounts due by the company to its employees in respect of salaries and on behalf of employees in respect of health insurance and pension contributions).

Under Cayman Islands law there is a possibility that a court might recharacterize as floating charges any security interests expressed to be created by a security document as fixed charges where the chargee does not have the requisite degree of control over the ability of the relevant chargor to deal with the relevant assets and the proceeds thereof or does not exercise such control in practice, as the description given to the charges in the relevant security document as fixed charges is not determinative. Where the chargor is free to deal with the secured assets without the consent of the chargee, the court is likely to hold that the security interest in question constitutes a floating charge, notwithstanding that it may be described as a fixed charge.

Challenges to Note Guarantees and Security

There are circumstances under Cayman Islands insolvency law in which the granting by a Cayman Islands company of security and guarantees may be challenged either by an official liquidator of such Cayman Islands company or by a creditor claiming to have been prejudiced by such grants.

The following paragraphs discuss potential grounds for challenge that may apply to guarantee and security interests granted by the Company.

Voidable Preference

Under section 145 of the Companies Law every conveyance or transfer of property, or charge thereon, and every payment obligation and judicial proceeding, made, incurred, taken or suffered by any company in favor of any creditor at a time when the company is unable to pay its debts within the meaning of Section 93 of the Companies Law with a view to giving such creditor a preference over other creditors shall be invalid if made, incurred, taken or suffered within six months immediately preceding the commencement of a liquidation of the company. A payment to a related party of the company (being a creditor which has the ability to control the company or exercise significant influence over the company in making financial and operating decisions) shall be deemed to have been made with a view to giving such creditor a preference.

Pursuant to Section 93 of the Companies Law, a company shall be deemed unable to pay its debts if: (a) a creditor to whom the company is indebted for an amount exceeding one hundred dollars then due, has served on the company a demand at its registered office requiring the company to pay the sum so due, and the company has neglected to pay such sum (or otherwise to secure or compound the same to the satisfaction of the creditor) within three weeks of the service of such demand; (b) execution of other process issued on a judgment, decree or order obtained in the Grand Court of the Cayman Islands in favor of any creditor in any proceedings instituted by such creditor against the company, is returned unsatisfied in whole or in part; or (c) it is proved to the satisfaction of the Grand Court of the Cayman Islands that the company is unable to pay its debts.

Transactions at an Undervalue

Under s146 of the Companies Law every disposition of property (including a mortgage or pledge) made at an undervalue by or on behalf of a company with intent to defraud its creditors (meaning an intention to willfully defeat an obligation owed to a creditor) shall be voidable at the instance of its official liquidator. An obligation in this context means an obligation or liability (including a contingent liability) which existed on or prior to the date of the relevant disposition and the burden of establishing an intent to defraud is on the official liquidator.

Undervalue in relation to a disposition of a company's property means (i) the provision of no consideration for the disposition, or (ii) a consideration for the disposition the value of which in money or monies worth is significantly less than the value of the property which is the subject of the disposition.

In the event of a disposition being set aside on the basis that it was a transaction at an undervalue, then if the court is satisfied that the transferee has not acted in bad faith:

(a) the transferee shall have a first and paramount charge over the relevant property of an amount equal to the entire costs properly incurred by the transferee in the defense of the action or proceedings; and

(b) the relevant disposition shall be set aside subject to the proper fees, costs, pre-existing rights, claims and interests of the transferee (and of any predecessor transferee who has not acted in bad faith).

No action or proceedings shall be commenced by an official liquidator more than six years after the date of the relevant disposition.

Fraudulent Dispositions

Under the Fraudulent Dispositions Law (1996 Revision) of the Cayman Islands (the "Fraudulent Dispositions Law") every disposition of property (including a mortgage or pledge) made with an intent to defraud (meaning that the intention of the transferor was to willfully defeat an obligation owed to a creditor) and at an undervalue shall be voidable at the instance of the creditor who is thereby prejudiced. An obligation in this context means an obligation or liability (including a contingent liability) which existed on or prior to the date of the relevant disposition and of which the transferor had notice and the burden of establishing intent to defraud is on the creditor seeking to set aside the disposition.

Undervalue in relation to a disposition of a company's property means (i) the provision of no consideration for the disposition, or (ii) a consideration for the disposition the value of which in money or monies worth is significantly less than the value of the property which is the subject of the disposition.

In the event of a disposition being set aside on the basis that it was a fraudulent disposition then if the court is satisfied that the transferee has not acted in bad faith:

(a) the transferee shall have a first and paramount charge over the relevant property of an amount equal to the entire costs properly incurred by the transferee in the defense of the action or proceedings (and not merely such costs as might otherwise be allowed by the court); and

(b) the relevant disposition shall be set aside subject to the proper fees, costs, pre-existing rights, claims and interests of the transferee (and of any predecessor transferee who has not acted in bad faith).

No action or proceedings shall be commenced by a creditor more than six years after the date of the relevant disposition.

A disposition shall be set aside under the Fraudulent Dispositions Law only to the extent necessary to satisfy the obligation to a creditor at whose instance the disposition has been set aside together with such costs as the court may allow.

England and Wales

Fixed and Floating Charges

Fixed-charge security has a number of advantages over floating charge security: (a) an administrator appointed to the company that granted the floating charge can dispose of floating charge assets for cash or collect receivables charged by way of floating charge and use the proceeds and/or cash subject to a floating charge, to meet administrative expenses (which can include the costs of continuing to operate the charging company's business while in administration) in priority to the claims of the floating charge holder; (b) a fixed charge, even if created after the date of a floating charge, may have priority as against the floating charge over the charged assets; (c) general costs and expenses (including the liquidator's remuneration) properly incurred in a winding-up are payable out of floating charge assets to the extent the assets of the company available for unsecured creditors generally are otherwise insufficient to meet them in priority to floating charge claims; (d) until the floating charge security crystallizes, a company is entitled to deal with assets that are subject to floating charge security in the ordinary course of its business, meaning that such assets can be effectively disposed of by the charging company so as to give a third party good title to the assets free of the floating charge and so as to give rise to the risk of security being granted over such assets in priority to the floating charge security; (e) floating charge security is subject to certain challenges under English insolvency law (see "—Challenges to Note Guarantees and Security—Grant of Floating Charge"); and (f) floating charge security is subject to the claims of preferential creditors (such as occupational pension scheme contributions and salaries owed to employees (subject to a cap per employee) and holiday pay owed to employees) and, where the floating charge is not a security financial collateral arrangement, to the claims of unsecured creditors in respect of a ring-fenced amount of the proceeds (see "—Administration and Floating Charges").

Under English law there is a possibility that a court could recharacterize as floating charges any security interests expressed to be created by a security document as fixed charges where the chargee does not have the requisite degree of control over the relevant chargor's ability to deal with the relevant assets and the proceeds thereof or does not exercise such control in practice, as the description given to the charges in the relevant security document as fixed charges is not determinative. Where the chargor is free to deal with the secured assets without the consent of the chargee, the court is likely to hold that the security interest in question constitutes a floating charge, notwithstanding that it may be described as a fixed charge.

Administration and Floating Charges

Under English insolvency law, English courts are empowered to order the appointment of an administrator in respect of an English company in certain circumstances. An administrator can also be appointed out of court by an English company, its directors or the holder of a qualifying floating charge and different procedures apply according to the identity of the appointor. During the administration, in general no proceedings or other legal process may be commenced or continued against such company, or security or guarantee enforced over such company's property, except with leave of the court or the consent of the administrator (although a demand for payment could be made under a guarantee granted by the company). The moratorium does not, however, apply to a "security financial collateral arrangement" (such as a charge over cash or financial instruments such as shares, bonds or tradable capital market debt instruments) under the Financial Collateral Arrangements (No. 2) Regulations 2003. During the administration of an English company, a creditor would not be able to enforce any security interest (other than security financial collateral arrangements) or guarantee granted by it without the consent of the administrator or the court (although a demand for payment could be made under a guarantee granted by the company). In addition, a secured creditor cannot appoint an administrative receiver.

The Security Agent can appoint its choice of administrator by the out-of-court route or appoint an administrative receiver if it is the holder of a qualifying floating charge (as defined in paragraph 14 of Schedule B1 of the IA86). The essential characteristics of a qualifying floating charge are that (a) the charge states that the relevant statutory provision applies to it, (b) the charge must by its terms give the holder power to appoint an administrator (or an administrative receiver) and (c) the charge (or that and other charges taken together) must relate to the whole or substantially the whole of the relevant Obligor's property. Even if the Security Agent holds a qualifying floating charge, it can only appoint an administrative receiver if one of the exceptions to the general prohibition of appointing an administrative receiver applies. The most relevant exception to the prohibition on the appointment of an administrative receiver by the Security Agent is that the Security Agent can appoint an administrative receiver under security forming part of a "capital market arrangement" (as defined in the IA86), which is the case if a party incurs debt of at least £50,000,000 during the life of the arrangement and the arrangement involves the issue of a "capital markets investment" (which is defined in the IA86). Once an administrative receiver is appointed by the Security Agent the company or its directors will not be permitted to appoint an administrator by the out-of-court route and a court will only appoint an administrator if the charge under which the administrative receiver appointed is successfully challenged or the Security Agent agrees. If an administrator is appointed to a company, any administrative receiver then in office must vacate office and any receiver of part of the company's property must resign if requested to do so by the administrator.

An administrator, receiver (including administrative receiver) or liquidator of the company will be required to ring-fence a certain percentage of the proceeds of enforcement of floating charge security for the benefit of unsecured creditors. Under current law, this applies to 50% of the first £10,000 of floating charge realizations and 20% of the remainder over £10,000, with a maximum aggregate cap of £800,000 (except where the company's net property is available to be distributed to the holder of a first-ranking floating charge created before April 6, 2020, in which case the maximum aggregate cap is £600,000). Whether the assets are subject to the floating charges and other security will constitute the whole or substantially the whole of the relevant Obligor's assets at the time that the floating charges are enforced will be a question of fact at that time and there is no statutory guidance as to what percentage of a company's assets should be charged to satisfy this test.

Challenges to Note Guarantees and Security

There are circumstances under English insolvency law in which the granting by an English company of security and guarantees can be challenged.

The following paragraphs discuss potential grounds for challenge that may apply to guarantees and security interest.

Transaction at an Undervalue

Under English insolvency law, a liquidator or an administrator of an English company could apply to the court for an order to set aside a security interest (in certain cases) or a guarantee granted by the company (or give other relief) on the grounds that the creation of such security interest or guarantee constituted a transaction at an undervalue. The grant of a security interest or guarantee will only be a transaction at an undervalue if the transaction constitutes a gift or is made on terms that provide that the company receives no consideration or if the company receives consideration of significantly less value, in money or in money's worth, than the consideration given by such company. For a challenge to be made, the guarantee or security must be granted within a period of two years ending with the onset of insolvency (as defined in section 240 of the IA86). In addition the company must have been "unable to pay its debts" at the time that it granted the guarantee or security or became "unable to pay its debts" as a result. A company will be "unable to pay its debts" if a statutory demand for over £750 is served on the company and remains unsatisfied within 21 days of such service or an execution on or other process issued on a judgment, decree or order of a court in favor of a creditor is returned unsatisfied in whole or in part or if it is proved to the court's satisfaction that the company is not able to pay its debts as they fall due or that the value of the company's assets is less than the amount of its liabilities (taking into account contingent and prospective liabilities). A court will not make an order in respect of a transaction at an undervalue if it is satisfied that the company entered into the transaction in good faith and for the purpose of carrying on its business and that, at the time it did so, there were reasonable grounds for believing the transaction would benefit the company. Subject to this, if the court determines that the transaction was a transaction at an undervalue the court can make such order as it thinks fit to restore the position to what it would have been if the transaction had not been entered into (which could include reducing payments under the guarantees or setting aside any security interests granted or guarantees although there is protection for a third party that benefits from the transaction and has acted in good faith and for value). In any challenge proceedings, it is for the administrator or liquidator to demonstrate that the English company was unable to pay its debts unless a beneficiary of the transaction was a "connected person" (as defined in the IA86), in which case there is a presumption that the company was unable to pay its debts and the connected person must demonstrate that the company was not unable to pay its debts at the time of the transaction.

Preference

Under English insolvency law, a liquidator or administrator of an English company could apply to the court for an order to set aside a security interest or a guarantee granted by such company (or give other relief) on the grounds such security interest or such guarantee constituted a preference. The grant of a security interest or guarantee is a preference if it has the effect of placing a creditor (or a surety or guarantor of the company) in a better position in the event of the company's insolvent liquidation than if the security interest or guarantee had not been granted. For a challenge to be made, the decision to prefer must be made within the period of six months ending with the onset of insolvency (as defined in section 240 of the IA86) if the beneficiary of the security interest or the guarantee is not a connected person or two years if the beneficiary is a connected person. A court may not make an order in respect of a preference of a person unless it is satisfied that the company in deciding to give the preference was influenced by a desire to put that person in a better position. If the court determines that the transaction was a preference, the court can make such order as it thinks fit to restore the position to what it would have been if that preference had not been given (which could include reducing payments under the guarantees or setting aside the security interests or guarantees). There is protection for a third party that benefits from the transaction and acted in good faith and for value. In any proceedings, it is for the administrator or liquidator to demonstrate that the company was unable to pay its debts and that the company was influenced by a desire to produce the preferential effect, unless the beneficiary of the transaction was a connected person, in which case there is a presumption that the company was influenced by a desire to produce the preferential effect and the connected person must demonstrate in such proceedings that there was no such influence.

Transaction Defrauding Creditors

Under English insolvency law, a liquidator or an administrator of a company, or a person who is a victim of the relevant transaction can apply to the court for an order to set aside a security interest or guarantee granted by that company on the grounds the security interest or guarantee was a transaction defrauding creditors.

A transaction will constitute a transaction defrauding creditors if it is a transaction at an undervalue and the court is satisfied the substantial purpose of a party to the transaction was to put assets beyond the reach of actual or potential claimants against it or to prejudice the interest of such persons.

If the court determines that the transaction was a transaction defrauding creditors, then it may make such order as it may deem fit to restore the position to what it was prior to the transaction or protect the victims of the transaction (including reducing payments under the guarantee or setting aside the security interest or guarantees) but there is protection for a third party acting in good faith and for value without notice of the relevant circumstances. Any "victim" of the transaction (with the leave of the court if the company is in liquidation or administration) may apply to court under this provision and not just liquidators or administrators. There is no time limit in the English insolvency legislation within which the company must enter insolvency proceedings and the relevant company does not need to have been unable to pay its debts at the time of the transaction.

Grant of Floating Charge

Under English insolvency law, if an English company is unable to pay its debts at the time of (or as a result of) granting a floating charge then such floating charge can be avoided on the action of a liquidator or administrator if it was granted in the period of one year ending with the onset of insolvency (as defined in the IA86). The floating charge, however, will be validated to the extent of the value of the consideration provided for the creation of the charge in the form of money paid to, or goods or services supplied to, or any discharge or reduction of any debt of, the relevant English company at the same time as or after the creation of the floating charge plus interest payable on such amounts. Where the floating charge is granted to a "connected person," the charge can be challenged if given within two years of the onset of insolvency and the prerequisite to challenge that the company is unable to pay its debts does not apply. However, if the floating charge qualifies as a "security financial collateral arrangement" under the Financial Collateral Arrangements (No. 2) Regulations 2003, the floating charge will not be subject to challenge as described in this paragraph.

Corporate Insolvency and Governance Act 2020

On June 26, 2020, the Corporate Insolvency and Governance Act 2020 (the "Act") enacted fundamental reforms to the UK's existing insolvency and companies legislation. Some of these measures had been proposed in August 2018 but were fast-tracked through the UK legislative process in response to COVID-19. The measures include the following:

(a) Moratorium

The Act introduced a new standalone moratorium to enable the company to seek rescue options and reach an agreement with its creditors to facilitate a restructuring.

Subject to certain exclusions and meeting requisite conditions, any company that is liable to be wound up under the IA86 is eligible for a moratorium. Ineligible companies include certain financial services companies (including insurance and securitization companies as well as parties to capital market arrangements). Directors of any eligible company may commence a moratorium by filing the requisite papers at court. From September 30, 2020 (which may be extended by the UK government), directors must apply to court to commence a moratorium for any company that has entered into a moratorium, administration or company voluntary arrangement in the preceding twelve months, whereupon the court will consider whether a moratorium will result in a better outcome for creditors as a whole than winding up without one.

Both in- and out-of-court processes involve a statement from the directors of the company that, in their view, the company is, or is likely to become, unable to pay its debts. Furthermore, a monitor, who is an insolvency practitioner appointed to oversee the moratorium, must separately confirm (among other things) that the moratorium would likely result in the rescue of the company as a going concern. This is an ongoing requirement in order for a moratorium to continue; indeed, a monitor must terminate the moratorium if, at any time, it becomes apparent that the company is unlikely to be rescued as a going concern.

A company subject to a moratorium has the benefit of a payment holiday in relation to certain debts incurred prior to the commencement of the moratorium. However, certain other debts, including those which arise under a contract or other instrument involving financial services (which would include capital market arrangements) entered into or incurred prior to the moratorium, are exempted from payment holidays and such liabilities are therefore required to be met as and when they fall due. Failure to pay such liabilities, plus any debt incurred during the moratorium, which arise or become payable during the moratorium will compel the monitor to end the moratorium.

During a moratorium creditors are restricted from taking enforcement measures against the company, including commencing insolvency and other legal proceedings and enforcing security without the leave of the monitor or the court. The Act includes a carve-out for enforcement of security financial collateral (see "Administration and Floating Charges" above) or the taking of any step to enforce a collateral security charge, which are permitted. In contrast to a moratorium arising from an administration, a floating charge may not be crystallised during this new moratorium, nor may any restrictions on the disposal of a floating charge asset be imposed.

Costs incurred during a moratorium will be treated in the same way as expenses in an administration. Where a company exits a moratorium and subsequently enters into administration or liquidation within a 12-week period, any unpaid moratorium debts and any pre-moratorium debts for which the company did not have a payment holiday (save for financial debt accelerated during the moratorium), will have super-priority over any costs or claims in the administration or liquidation (except for claims of fixed charge creditors to the extent such creditors can be paid out of the assets charged and any fees and expenses of the official receiver).

A moratorium will last for an initial period of 20 business days, which may be extended for a further 20 business days by the directors of the company. Where an extension is proposed, statements from the directors and the monitor must be filed with the court confirming that the qualifying conditions continue to be met. Further extensions (beyond 40 business days) will be available:

i. pursuant to an out-of-court filing for a period of up to one year from commencement, if more than 50% (by value) of secured and more than 50% (by value) of unsecured creditors vote in favor of the extension, unless in both cases, more than 50% (by number) of unconnected secured and unsecured creditors vote against the extension. Only creditors with pre-moratorium debt in respect of which the company has a payment holiday, which has fallen due or may fall due before the proposed revised end date of the moratorium, will have the right to vote;

ii. pursuant to an application by the directors to court for such period as the court sees fit;

iii. in connection with a company voluntary arrangement until the proposal is implemented, accepted or rejected by creditors or withdrawn by the company; and

iv. at the court's discretion in connection with a scheme of arrangement or restructuring plan.

(b) Ipso Facto Clauses Prohibited

The Act introduced a permanent prohibition on the enforcement of termination clauses and the imposition of amended terms by a supplier in contracts for goods and services, which would have been triggered by the commencement of insolvency proceedings against the counterparty company. Such proceedings include winding up and administration, as well as the new moratorium and restructuring plan. Other rights to terminate under the contract (i.e. other than on the counterparty's insolvency) are preserved, to the extent the termination event arises after commencement of the insolvency proceeding. To prevent undue hardship, a supplier may be allowed to terminate the contract if the company, the relevant insolvency practitioner or the court consents. Financial services contracts and entities involved in financial services are not affected by this new prohibition.

(c) Restructuring Plan

The Act also provides for a new restructuring process, similar to a scheme of arrangement under the Companies Act 2006, but with an ability for a cross-class cram-down to bind dissenting stakeholders to the restructuring. This new standalone restructuring plan is available to any company that is liable to be wound up under the IA86, excluding certain financial market participants and any other company excluded by the Secretary of State.

The company must: (i) have encountered, or be likely to encounter, financial difficulties that are affecting, or will or may affect, its ability to carry on business as a going concern; and (ii) have proposed a compromise or arrangement with its creditors or members for the purpose of eliminating, reducing, preventing or mitigating such financial difficulties. There is no financial eligibility criteria, thereby making it available to both solvent and insolvent companies (in the latter case, the plan would be proposed by the incumbent insolvency practitioner).

The process closely resembles that for schemes of arrangement, whereby a proposed restructuring plan must be filed at court as part of the proponent's application to convene a hearing. Creditors and members whose rights would be affected by the restructuring or compromise arrangement must be permitted to participate in a convening meeting ordered by the court. At the hearing, the court will examine the classes of stakeholders and may order "out-of-the-money" creditors and members (i.e. those shown not have a genuine economic interest in the company) not to attend future meetings. Thereafter, the court may convene further stakeholder meetings, details of which must be sent to every stakeholder in that class, accompanied by details of the plan and directors' material interests in the company.

The proposed restructuring plan will be voted on at the relevant creditors' or members' meeting, and approved if the required majority of 75% by value of the creditors or members, or class of creditors or members present, vote in favour of it. In contrast to a scheme of arrangement, there is no requirement that a majority in number must also vote in favour of the plan. Where a convening application is made within 12 weeks after the end of the new standalone moratorium, any creditors in respect of "moratorium debts" and "priority pre-moratorium debts" may not participate in the vote and may not be compromised under the plan without their consent.

Following the creditors' or members' meeting(s), a sanction hearing will be held. Here, the court will consider if the necessary plan requirements have been met and decide whether to sanction the restructuring plan. The court has discretion to sanction a plan, even if one or more classes of creditors or members did not vote in favour of it, thereby "cramming-down" dissenting classes, if:

i. the court is satisfied that no creditor or member in the dissenting class(es) would be worse off than they would be in what the court considers to be the most likely alternative scenario, were the plan not sanctioned; and
ii. the restructuring plan has been approved by a number representing 75% by value of a class of creditors or members who would receive a payment, or have a genuine economic interest in the company, in the event of the most likely alternative scenario referred to in (i) above.

A restructuring plan confirmed by the court will be binding on all affected parties, whether they initially voted in favour of it or not. Parties' rights following confirmation of a restructuring plan will be as provided for in the plan and any previous rights will be extinguished. If a company subsequently entered an insolvency procedure after the failure of a restructuring plan, the rights and claims of any creditors bound by the failed plan would be as set out in the plan. Any debt forgiveness would therefore be binding in the subsequent insolvency.

(d) Modification of wrongful trading

The Act provides for a temporary modification to the application of liability for wrongful trading by directors with retrospective effect from March 1, 2020 until September 30, 2020 (subject to extension). Wrongful trading provisions create an offence for a director of a company that enters insolvent liquidation or administration to continue to trade when they knew or ought to have known prior to the commencement of the insolvent liquidation or administration that there was no reasonable prospect of avoiding insolvent liquidation or administration.

These temporary measures are intended to protect directors from personal liability where they make decisions to continue trading at a time when the risk of insolvency as a result of COVID-19 is high.

Pursuant to these provisions, the court is required to assume that a director is not responsible for any worsening of the financial position of the company or its creditors that occurs during the relevant period. There is no requirement to show that the company's worsening financial position was due to COVID-19. Other provisions aimed at preventing director misconduct (such as fraudulent trading under Section 213 of the IA86 and general fiduciary duties of directors under the Companies Act 2006) continue to apply.

(e) No winding up petitions or orders

The Act has temporarily suspended the ability of creditors to present a winding up petition during the period between April 27, 2020 and September, 30 2020 (subject to extension) on the basis of a company's inability to pay its debts, unless the creditor has reasonable grounds to believe that COVID-19 did not have a financial effect on the company or that the company's inability to pay its debts would have existed even if COVID-19 had not had a financial effect on the company. With regards to petitions that have been presented during this period but before the Act came into force, the court can make such order as it thinks appropriate to restore the position to what it would have been if the petition had not been presented. This could lead to the voiding of winding up orders made in respect of such petitions.

Similarly, no winding up orders may be made by the courts during this period on the basis of an inability to pay debts if: (i) it appears to the court that COVID-19 had a financial effect on the company before the presentation of the petition, and (ii) the court is not satisfied that the inability to pay debts would have existed even if COVID-19 had not had a financial effect on the company. Any winding up orders made during this period but before the Act came into force will be void and the court can give directions to the insolvency official to restore the company to its "pre-petition" position.

(f) Statutory demands

Under the Act, as from April 27, 2020 the presentation of a winding up petition will not be permitted on the basis of a statutory demand served during the period between March 1, 2020 and September 30, 2020 (subject to extension). This applies whether or not COVID-19 had an impact on the company's failure to discharge the demand.

(g) So-called "Henry VIII" powers

The Act further confers on the UK government some extensive powers to make a range of further amendments to corporate insolvency and governance legislation under delegated regulations until April 30, 2021 (subject to extension). For example, regulations may be made to amend or modify the conditions that must be met before an insolvency procedure applies to certain entities, or the way in which the procedure applies, or to change or disapply a person's corporate duties and liabilities.

PLAN OF DISTRIBUTION

Barclays Bank PLC, Goldman Sachs International, Nomura International plc, Deutsche Bank AG, London Branch, Lloyds Bank Corporate Markets plc and Cöoperatieve Rabobank U.A. trading as Rabobank London, are the Initial Purchasers. Subject to the terms and conditions set forth in the Purchase Agreement to be dated as of the date of this Offering Memorandum, the Issuer has agreed to sell to the Initial Purchasers, and the Initial Purchasers have agreed to purchase from the Issuer, the principal amount of the New Notes as set forth in the Purchase Agreement.

The Initial Purchasers propose to offer the New Notes initially at the price indicated on the cover page hereof. After the initial offering, the offering price and other selling terms of the New Notes may from time to time be varied by the Initial Purchasers without notice.

Persons who purchase New Notes from the Initial Purchasers may be required to pay stamp duty, taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the offering price set forth on the cover page hereof.

The Purchase Agreement provides that the obligations of the Initial Purchasers to pay for and accept delivery of the New Notes are subject to, among other conditions, the delivery of certain legal opinions by counsel. Subject to the terms and conditions set forth in the Purchase Agreement, the Initial Purchasers have agreed to purchase all of the New Notes sold under the Purchase Agreement if any of the New Notes are purchased.

The Purchase Agreement further provides that the Issuer will indemnify and hold harmless the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, and will contribute to payments that the Initial Purchasers may be required to make in respect thereof. The Parent has agreed, subject to certain limited exceptions, that neither it nor any of its subsidiaries or other controlled affiliates will offer, sell, contract to sell, issue or otherwise dispose of, except as provided under the Purchase Agreement, any debt securities of, or guaranteed by, the Issuer or any of the Guarantors and having a tenor of more than one year during the period from the date of the Purchase Agreement through and including the date that is 90 days after the date of the Purchase Agreement, without the prior written consent of the Initial Purchasers.

The New Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except to QIBs in reliance on Rule 144A and outside the United States in offshore transactions in reliance on Regulation S. Terms used in this paragraph have the meanings given to them by Regulation S. Resales of the New Notes are restricted as described under "Transfer Restrictions."

Each Initial Purchaser has represented, warranted and agreed that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Market Act 2000 (as amended, the "FSMA")) received by it in connection with the issue or sale of the New Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer;
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the New Notes in, from or otherwise involving the United Kingdom;
- no action has been taken in any jurisdiction, including the United States and the United Kingdom, by us or the Initial Purchasers that would permit a public offering of the New Notes or the possession, circulation or distribution of this Offering Memorandum or any other material relating to us or the New Notes in any jurisdiction where action for this purpose is required. Accordingly, the New Notes may not be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any other offering material or advertisements in connection with the New Notes may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction. This Offering Memorandum does not constitute an offer to sell or a solicitation of an offer to purchase in any jurisdiction where such offer or solicitation would be unlawful. Persons into whose possession this Offering Memorandum comes are advised to inform themselves about and to observe any restrictions relating to the Offering, the distribution of this Offering Memorandum and resale of the New Notes. See "Transfer Restrictions;" and
- it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available the New Notes to any retail investor in the EEA or in the United Kingdom. For the purposes of this paragraph the expression "retail investor" means a person who is one (or more) of the following: (i) a

retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Currently there is no public market for the New Notes. Application will be made for the New Notes to be listed on the Exchange for the listing of and permission to deal in the New Notes on the Official List of the Exchange, however we cannot assure you that the New Notes will be approved for listing or that such listing will be maintained. Certain of the Initial Purchasers have advised us that they intend to make a market in the New Notes as permitted by applicable law. The Initial Purchasers are not obligated, however, to make a market in the New Notes, and any market making activity may be discontinued at any time at the sole discretion of the Initial Purchasers without notice. In addition, any such market making activity will be subject to the limits imposed by the Securities Act and the Exchange Act. Accordingly, we cannot assure you that any market for the New Notes will develop, that it will be liquid if it does develop or that you will be able to sell any New Notes at a particular time or at a price which will be favorable to you. See "Risk Factors—Risks Related to Our Structure—There may not be an active trading market for the New Notes, in which case your ability to sell the New Notes may be limited."

The Initial Purchasers may engage in over allotment, stabilizing transactions, covering transactions and penalty bids in accordance with Regulation M under the U.S. Exchange Act. Over allotment involves sales in excess of the offering size, which creates a short position for the relevant Initial Purchasers. Stabilizing transactions permit bidders to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Covering transactions involve purchases of the New Notes in the open market after the distribution has been completed in order to cover short positions. Penalty bids permit the Initial Purchasers to reclaim a selling concession from a broker or dealer when the New Notes originally sold by that broker or dealer are purchased in a stabilizing or covering transaction to cover short positions. These stabilizing transactions, covering transactions and penalty bids may cause the price of the New Notes to be higher than it would otherwise be in the absence of these transactions. These transactions, if commenced, may be discontinued at any time. In connection with this Offering, a stabilizing manager, or person acting on its behalf, may engage in transactions that stabilize, maintain or otherwise affect the price of the New Notes. Specifically, a stabilizing manager, or person acting on its behalf, may bid for and purchase New Notes in the open markets for the purpose of pegging, fixing or maintaining the price of the New Notes. A stabilizing manager may also over allot the Offering, creating a syndicate short position, and may bid for and purchase New Notes in the open market to cover the syndicate short position. In addition, a stabilizing manager may bid for and purchase New Notes in market making transactions as permitted by applicable laws and regulations and impose penalty bids. These activities may stabilize or maintain the respective market price of the New Notes above market levels that may otherwise prevail. A stabilizing manager is not required to engage in these activities, and may end these activities at any time. Accordingly, no assurance can be given as to the liquidity of, or trading markets for, the New Notes. See "Risk Factors—Risks Related to Our Structure—There may not be an active trading market for the New Notes, in which case your ability to sell the New Notes may be limited."

These stabilizing transactions, covering transactions and penalty bids may cause the price of the New Notes to be higher than it would otherwise be in the absence of these transactions. These transactions may begin on or after the date on which adequate public disclosure of the terms of this Offering is made and, if commenced, may be discontinued at any time at the sole discretion of the Initial Purchasers. If these activities are commenced, they must end no later than the earlier of 30 days after the date of issuance of the New Notes and 60 days after the date of the allotment of the New Notes. These transactions may be effected in the over the counter market or otherwise.

The Initial Purchasers and their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial investment banking, financial advising, investment management, principal investment, hedging, financing and brokerage activities. The Initial Purchasers and their affiliates have engaged, and may in the future engage, in investment banking (including hedging) and/or commercial banking transactions with, and may perform services for, the Issuer and its affiliates in the ordinary course of business for which they have received or may receive customary fees and commissions. Each of Barclays Bank PLC, Goldman Sachs International, Nomura International plc, Deutsche Bank AG, London Branch, Lloyds Bank Corporate Markets plc and Cöoperatieve Rabobank U.A. trading as Rabobank London, or their respective affiliates are mandated lead arrangers, original lenders and/or bookrunners under the Revolving Facilities Agreement, the Senior Bridge Facilities Agreement, the Senior Term Facilities Agreement and the Second Lien Facility Agreement. Barclays Bank PLC is also the agent and security agent under these agreements. In addition, in the ordinary course of their business activities, the Initial Purchasers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates (including the New Notes). The Initial Purchasers or their respective affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, the Initial Purchasers and their respective affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities (including potentially the New Notes). Any such short positions could adversely affect future trading prices of the New Notes. The Initial Purchasers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Certain of the Initial Purchasers anticipate that they will initially purchase and hold a portion of the Floating Rate Notes for their own accounts.

TRANSFER RESTRICTIONS

The New Notes have not been, and will not be, registered under the Securities Act or any state securities laws and, unless so registered, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the New Notes offered hereby are being offered and sold only to qualified institutional buyers in reliance on Rule 144A under the Securities Act to persons who are not U.S. persons and are outside the United States in offshore transactions in reliance on Regulation S under the Securities Act.

In addition, until 40 days after the later of the commencement of this Offering and the closing date, an offer or sale of the New Notes within the United States by a dealer (whether or not participating in this Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A.

Each purchaser of the New Notes by its acceptance thereof, will be deemed to have acknowledged, represented to and agreed with us and the Initial Purchasers as follows:

1) It understands and acknowledges that the New Notes (and the Note Guarantees) have not been registered under the Securities Act or any applicable state securities law; are being offered for resale in transactions not requiring registration under the Securities Act or any state securities law, including sales pursuant to Rule 144A and Regulation S; and may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the Securities Act or any applicable state securities law, pursuant to an exemption therefrom or in any transaction not subject thereto and in each case in compliance with the conditions for transfer set forth in paragraph (5) and (10) below.

2) It is not an "affiliate" (as defined in Rule 144 under the Securities Act) of the Issuer or acting on behalf of the Issuer and it is either:

    a. a qualified institutional buyer and is aware that any sale of the New Notes to it will be made in reliance on Rule 144A and the acquisition of the New Notes will be for its own account or for the account of another qualified institutional buyer; or

    b. not a U.S. person and is purchasing the New Notes outside the United States in an offshore transaction in accordance with Regulation S.

3) It acknowledges that neither we nor the Initial Purchasers, nor any person representing us or the Initial Purchasers, has made any representation to it with respect to this Offering or sale of any New Notes (and the Note Guarantees), other than the information contained in this Offering Memorandum, which Offering Memorandum has been delivered to it and upon which it is relying in making its investment decision with respect to the New Notes. It acknowledges that neither the Initial Purchasers nor any person representing the Initial Purchasers makes any representation or warranty as to the accuracy, adequacy or completeness of the information contained in this Offering Memorandum. It also acknowledges that it has had access to such financial and other information concerning us and the New Notes as it has deemed necessary in connection with its decision to purchase any of the New Notes.

4) It is purchasing the New Notes for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act or any state securities laws or any other applicable laws, subject to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and subject to its or their ability to resell such New Notes pursuant to Rule 144A, Regulation S or any other exemption from registration available under the Securities Act.

5) Each holder of the New Notes agrees on its own behalf and on behalf of any investor account for which it is purchasing the New Notes, and each subsequent holder of the New Notes by its acceptance thereof will be deemed to agree, to offer, sell or otherwise transfer such New Notes prior to the date (the "Resale Restriction Termination Date") that is, in the case of New Notes sold in reliance on Rule 144A, one year after the later of the date of the Issue Date; the last date on which the Issuer or any of its affiliates was the owner of such New Notes (or any predecessor thereto) or the last date on which the additional New Notes were issued and, in the case of New Notes sold in reliance on Regulation S, 40 days after the later of the date of the Issue Date; the last date on which the Issuer or any of its affiliates was the owner of such New Notes (or any predecessor thereto) or the last date on which the additional New Notes were issued only (i) to the Issuer or the Guarantors; (ii) pursuant to a

registration statement that has been declared effective under the Securities Act; (iii) for so long as the New Notes are eligible pursuant to Rule 144A under the Securities Act, to a person it reasonably believes is a qualified institutional buyer that purchases for its own account or for the account of a qualified institutional buyer to whom notice is given that the transfer is being made in reliance on Rule 144A under the Securities Act; (iv) pursuant to offers and sales that occur outside the United States in compliance with Regulation S under the Securities Act or (v) pursuant to any other available exemption from the registration requirements of the Securities Act, subject in each of the foregoing cases to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and to compliance with any applicable state securities laws and any applicable local laws and regulations, and further subject to the Issuer's and the Trustee's rights prior to any such offer, sale or transfer (I) pursuant to clause (iv) or (v) to require the delivery of an opinion of counsel, certification and/or other information satisfactory to each of them and (II) in each of the foregoing cases, to require that a certificate of transfer in the form appearing on the other side of the security is completed and delivered by the transferor to the Trustee. Each purchaser acknowledges that each note will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR (B) IT IS A NON-U.S. PERSON ACQUIRING THIS NOTE IN AN "OFFSHORE TRANSACTION" PURSUANT TO RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR FOR WHICH IT HAS PURCHASED SECURITIES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE RESALE RESTRICTION TERMINATION DATE, WHICH IS [IN THE CASE OF RULE 144A NOTES: ONE YEAR AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF (OR, IF LATER, THE ISSUE DATE OF ANY ADDITIONAL NOTES) AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF THIS SECURITY)] [IN THE CASE OF REGULATION S NOTES: 40 DAYS AFTER THE LATER OF THE DATE WHEN THE SECURITIES WERE FIRST OFFERED TO PERSONS OTHER THAN DISTRIBUTORS IN RELIANCE ON REGULATION S AND THE DATE OF THE COMPLETION OF THE DISTRIBUTION] ONLY (A) TO THE ISSUER OR THE GUARANTORS, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"), TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT, OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT IN EACH OF THE FOREGOING CASES TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF ITS PROPERTY OR THE PROPERTY OF SUCH INVESTOR ACCOUNT OR ACCOUNTS BE AT ALL TIMES WITHIN ITS OR THEIR CONTROL AND TO COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS, AND ANY APPLICABLE LOCAL LAWS AND REGULATIONS AND FURTHER SUBJECT TO THE ISSUER'S AND THE TRUSTEE'S RIGHTS PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER (I) PURSUANT TO CLAUSES (D) OR (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM AND (II) IN EACH OF THE FOREGOING CASES, TO

REQUIRE THAT A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

The following legend shall be included, if applicable.

THIS SECURITY HAS BEEN ISSUED WITH ORIGINAL ISSUE DISCOUNT ("OID") FOR U.S. FEDERAL INCOME TAX PURPOSES. THE ISSUE PRICE, THE AMOUNT OF OID, THE ISSUE DATE AND THE YIELD TO MATURITY OF THIS SECURITY MAY BE OBTAINED BY CONTACTING THE ISSUER AT STONEGATE PUB COMPANY FINANCING 2019 PLC, PORTER TUN HOUSE, 500 CAPABILITY GREEN LUTON, BEDFORDSHIRE, LU1 3LS, UNITED KINGDOM, ATTENTION: CHIEF FINANCIAL OFFICER.

6) It agrees that it will give to each person to whom it transfers the New Notes notice of any restrictions on transfer of such New Notes.

7) It acknowledges that the transfer agent will not be required to accept for registration of transfer any New Notes except upon presentation of evidence satisfactory to us and the Trustee that the restrictions set forth therein have been complied with.

8) It understands that no action has been taken in any jurisdiction (including the United States) by us or the Initial Purchasers that would result in a public offering of the Notes or the possession, circulation or distribution of this Offering Memorandum or any other material relating to us or the Notes in any jurisdiction where action for such purpose is required. Consequently, any transfer of the Notes will be subject to the selling and transfer restrictions set forth in this Offering Memorandum.

9) It is not nor is it acting for the account of a retail investor in the EEA or the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

10) It understands that: (i) the Notes (and the Notes Guarantees) are not intended to be offered, sold or otherwise made available to an should not be offered, sold or otherwise made available to any retail investor (as defined in paragraph (9) above) in the EEA or in the UK, and (ii) no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Notes (and the Note Guarantees) or otherwise making them available to retail investors in the EEA or the UK has been prepared and therefore offering or selling the Notes (and the Note Guarantees) or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

It acknowledges that we, the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations, warranties and agreements and agrees that if any of the acknowledgements, representations, warranties and agreements deemed to have been made by its purchase of the New Notes are no longer accurate, it will promptly notify the Initial Purchasers. If it is acquiring any New Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such investor account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such investor account.

LEGAL MATTERS

Certain legal matters relating to the validity of the New Notes and the Note Guarantees will be passed upon for the Issuer and the Guarantors by Simpson Thacher & Bartlett LLP, with respect to U.S. federal, New York state and English law. Certain legal matters in connection with this Offering will be passed upon for Midco, Parent and the other Guarantors incorporated in the Cayman Islands by Conyers Dill & Pearman, with respect to the laws of the Cayman Islands. Certain legal matters in connection with this Offering will be passed upon for the Initial Purchasers by Shearman & Sterling (London) LLP, with respect to U.S. federal and New York state and English law. Certain legal matters in connection with this Offering will be passed upon for the Initial Purchasers by Walkers, with respect to the laws of the Cayman Islands.

INDEPENDENT AUDITORS

The consolidated financial statements of SPCL and its subsidiaries as of and for the 52 weeks ended September 29, 2019, as of and for the 53 weeks ended September 30, 2018 and as of and for the 52 weeks ended September 24, 2017, have been audited by KPMG LLP, independent auditors, as stated in their reports appearing herein. KPMG LLP is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales.

The historical consolidated financial statements of Ei and its subsidiaries as of and for the year ended September 30, 2017, as of and for the year ended September 30, 2018 and as of and for the year ended September 30, 2019, have been audited by Ernst & Young LLP, independent auditors, as set forth in their reports appearing herein. Ernst & Young LLP is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales.

KPMG LLP has given and not withdrawn their consent for their reports to be included in the listing particulars in the form and context in which they are included for purposes of the listing of the New Notes on the Official List of the Exchange in accordance with its rules. A consent under the listing rules of the Official List of the Exchange is different from a consent filed with the SEC under Section 7 of the Securities Act, which is applicable only to transactions involving securities registered under the Securities Act.

As the New Notes have not been and will not be registered under the Securities Act, KPMG LLP and Ernst & Young LLP have not filed a consent under Section 7 of the Securities Act.

WHERE TO FIND ADDITIONAL INFORMATION

Each purchaser of the New Notes from the Initial Purchasers will be furnished with a copy of this Offering Memorandum and, to the extent provided to the Initial Purchasers by us for such purpose, any related amendments or supplements to this Offering Memorandum. Each person receiving this Offering Memorandum and any related amendments or supplements to this Offering Memorandum acknowledges that:

(1) such person has been afforded an opportunity to request from us, and to review and has received, all additional information considered by it to be necessary to verify the accuracy and completeness of the information herein;

(2) such person has not relied on the Initial Purchasers or any person affiliated with the Initial Purchasers in connection with its investigation of the accuracy of such information or its investment decision; and

(3) except as provided pursuant to (1) above, no person has been authorized to give any information or to make any representation concerning the New Notes offered hereby other than those contained herein and, if given or made, such other information or representation should not be relied upon as having been authorized by us or the Initial Purchasers.

Each person receiving this Offering Memorandum and any related amendments or supplements to this Offering Memorandum may make a written request to receive a copy of the Intercreditor Agreement. Moreover, for so long as any of the New Notes remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, we will, during any period in which we are not subject to Section 13 or 15(d) under the Exchange Act, nor exempt from reporting thereunder pursuant to Rule 12g3-2(b) of the Exchange Act, make available to any holder or beneficial holder of a Note, or to any prospective purchaser of a Note designated by such holder or beneficial holder, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act upon the written request of any such holder or beneficial owner. Any such request should be directed to the Registrar. All the above documents will be available at the offices of the Registrar.

We are not currently subject to the periodic reporting and other information requirements of the Exchange Act. Pursuant to the Indenture and so long as the New Notes are outstanding, we will furnish periodic information to holders of the New Notes. See "Description of the Notes—Certain Covenants—Reports." For so long as the New Notes are listed on the Official List of the Exchange for dealing and the rules of that exchange so require, copies of the organizational documents of the Issuer and the Guarantors, our most recent audited consolidated directors' report and financial statements, the Indenture (which includes the Note Guarantees and the form of the New Notes) and the Intercreditor Agreement will be available for review during normal business hours on any business day at the office of the Registrar.

ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a public limited company incorporated in England and Wales and its registered office is in England and Wales. The Issuer and the Guarantors are incorporated in, and have their respective principal executive offices or registered offices, as applicable, in the Cayman Islands or England and Wales. All of the directors and the executive officers of the Issuer and the Guarantors are non-residents of the United States. The assets of the Issuer and the Guarantors and the assets of their directors and executive officers, are located outside the United States. It may not be possible for investors to effect service of process within the United States upon the Issuer, a Guarantor or such persons or to enforce against any of the judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal securities laws of the United States, and there is doubt as to the enforceability in England and Wales or the Cayman Islands of civil liabilities predicated upon the federal securities laws of the United States, either in original actions or in actions for enforcement of judgments of U.S. courts. Moreover, in light of recent decisions of the U.S. Supreme Court, actions of the Issuer and the Guarantors may not be subject to the civil liability provisions of the federal securities laws of the United States.

The United States and England currently do not have a treaty providing for the reciprocal recognition and enforcement of judgments (as opposed to arbitration awards) in civil and commercial matters. Consequently, a final judgment for payment rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. federal securities laws, would not automatically be recognized or enforceable in England. In order to enforce any such U.S. judgment in England, proceedings must first be initiated before a court of competent jurisdiction in England. In such an action, the English court would not generally reinvestigate the merits of the original matter decided by the U.S. court (subject to what is described below) and it would usually be possible to obtain summary judgment on such a claim (assuming that there is no good defense to it). Recognition and enforcement of a U.S. judgment by an English court in such an action is conditional upon (among other things) the following:

- the U.S. court having had, at the time when proceedings were served, jurisdiction over the original proceedings according to English rules of international law;
- the U.S. judgment being final and conclusive on the merits in the sense of being final and unalterable in the court which pronounced it and being for a definite sum of money; and
- the U.S. judgment not being for a sum payable in respect of taxes, or other charges of a like nature or in respect of a penalty or fine or otherwise based on a U.S. law that an English court considers to relate to penal, revenue or other public law.

An English court may refuse to enforce such a judgment if the judgment debtor satisfies the court that:

- the U.S. judgment contravenes English public policy;
- the U.S. judgment has been arrived at by doubling, trebling or otherwise multiplying a sum assessed as compensation for the loss or damages sustained, is otherwise specified in Section 5 of the Protection of Trading Interests Act 1980 or is based on measures designated by the Secretary of State under Section 1 of the Act;
- the U.S. judgment has been obtained by fraud or in breach of English principles of natural or substantial justice;
- the U.S. judgment is a judgment on a matter previously determined by an English court or another court whose judgment is entitled to recognition in England or conflicts with an earlier judgment of such court;
- the English enforcement proceedings were not commenced within the relevant limitation period; or
- the U.S. judgment was obtained contrary to an agreement for the settlement of disputes under which the dispute in question was to be settled otherwise than by proceedings in a United States court (to whose jurisdiction the judgment debtor did not submit).

Only subject to the foregoing may investors be able to enforce in England judgments that have been obtained from U.S. federal or state courts. Notwithstanding the preceding, we cannot assure you that those judgments will be recognized or enforceable in England. In addition, we cannot assure you whether an English court would accept jurisdiction and impose civil liability if the original action was commenced in England, instead of the United States, and predicated solely upon U.S. federal securities laws.

The Cayman Islands currently have no treaties providing for the reciprocal recognition and enforcement of judgments (as opposed to arbitration awards) in civil and commercial matters with any jurisdiction (other than in respect of certain judgments of certain superior courts in the Commonwealth of Australia). Consequently, a final judgment for payment rendered by any U.S. federal or state court based on civil liability, whether or not predicated solely upon U.S. federal securities laws, would not automatically be recognized or enforceable in the Cayman Islands.

However, the courts of the Cayman Islands will recognize as a valid judgment, a final and conclusive judgment *in personam* obtained in U.S. federal or state courts under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) or, in certain circumstances, an *in personam* judgment for non-monetary relief, and would give a judgment based thereon without any re-examination of the merits provided that:

(a) such U.S. courts had proper jurisdiction over the parties subject to such judgment as a matter of Cayman Islands law conflict of law rules;

(b) such U.S. courts did not contravene rules of natural justice;

(c) the judgment of such U.S. courts was not obtained by fraud,

(d) the enforcement of the judgment would not be contrary to the public policy of the Cayman Islands,

(e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the Cayman Islands, and

(f) there is due compliance with the correct procedures under the laws of the Cayman Islands.

LISTING AND GENERAL INFORMATION

Listing Information

Application will be made to The International Stock Exchange Authority Limited (the "Authority") for the listing of the New Notes on the Official List of The International Stock Exchange (the "Exchange") and admission to trade on the Exchange. There can be no assurance that the New Notes will be listed on the Official List of the Exchange.

Neither the admission of the New Notes to the Official List of the Exchange nor the approval of this Offering Memorandum pursuant to the listing requirements of the Exchange shall constitute a warranty or representation by the Exchange as to the competence of the service providers to, or any other party connected with, the Issuers, the adequacy and accuracy of information contained in this Offering Memorandum or the suitability of the Issuers for investment or for any other purpose.

The New Notes are only intended to be offered in the primary market to, and held by, investors who are particularly knowledgeable in investment matters.

Clearing Information

The Floating Rate Notes sold pursuant to Regulation S and the Floating Rate Notes sold pursuant to Rule 144A have been accepted for clearance through the facilities of Euroclear and Clearstream under common codes 221001397 and 221001435, respectively. The ISIN for the Floating Rate Notes sold pursuant to Regulation S is XS2210013970 and the ISIN for the Floating Rate Notes sold pursuant to Rule 144A is XS2210014358.

The New Fixed Rate Notes offered hereby will have new ISIN and common codes, and will not be fungible with the Existing Fixed Rate Notes. The New Fixed Rate Notes sold pursuant to Regulation S and the New Fixed Rate Notes sold pursuant to Rule 144A have been accepted for clearance through the facilities of Euroclear and Clearstream under common codes 221001478 and 221001494, respectively. The ISIN for the New Fixed Rate Notes sold pursuant to Regulation S is XS2210014788 and the ISIN for the New Fixed Rate Notes sold pursuant to Rule 144A is XS2210014945.

Credit Ratings

Fitch Ratings Inc. and Moody's Investors Service, Inc. have each issued credit ratings in respect of the New Notes.

Issuer Legal Information

Stonegate Pub Company Financing 2019 plc was incorporated on July 9, 2019 as a public limited liability company under the laws of England and Wales. The registered office of the Issuer in the United Kingdom is Porter Tun House, 500 Capability Green, Luton, Bedfordshire, LU1 3LS, United Kingdom, and its telephone number at that address is +44 (0) 845 126 2944.

The Issuer has obtained all necessary consents, approvals and authorizations in the jurisdiction of its incorporation in connection with the issuance and performance of the New Notes. The creation and issuance of the New Notes will be authorized by the Issuer's board of directors dated prior to the closing of this Offering.

Parent Legal Information

Stonegate Pub Company Limited was incorporated under the laws of the Cayman Islands on August 13, 2010 as an exempted company with limited liability. The registered office of the Parent in the Cayman Islands is at the offices of Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands and in the United Kingdom is Porter Tun House, 500 Capability Green, Luton, Bedfordshire, LU1 3LS, United Kingdom. Pursuant to an increase in July 2020, the authorized share capital of the Parent is £5,269,105.

Legal Information of the Other Guarantors

Stonegate Pub Company Bidco Holdings Limited was incorporated on July 5, 2019 as a private limited company under the laws of England and Wales. The registered office of Holdco in the United Kingdom is Porter Tun House, 500 Capability Green, Luton, Bedfordshire, LU1 3LS, United Kingdom, and its telephone number at that address is +44 (0) 845 126 2944.

Stonegate Pub Company Bidco Limited was incorporated on July 5, 2019 as a private limited company under the laws of England and Wales. The registered office of Bidco in the United Kingdom is Porter Tun House, 500 Capability Green, Luton, Bedfordshire, LU1 3LS, United Kingdom, and its telephone number at that address is +44 (0) 845 126 2944.

Stonegate Pub Company Financing plc was incorporated on March 19, 2014 as a public limited company under the laws of England and Wales. The registered office of Stonegate Pub Company Financing plc in the United Kingdom is Porter Tun House, 500 Capability Green, Luton, Bedfordshire, LU1 3LS, United Kingdom, and its telephone number at that address is +44 (0) 845 126 2944.

Plato Company 3 Limited was incorporated under the laws of the Cayman Islands on March 4, 2008 as an exempted company with limited liability. The registered office of Plato Company 3 Limited in the Cayman Islands is at the offices of Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.

Town and City Pub Group Limited was incorporated on November 27, 2007 as a private limited company under the laws of England and Wales. The registered office of Town and City Pub Group Limited in the United Kingdom is Porter Tun House, 500 Capability Green, Luton, Bedfordshire, LU1 3LS, United Kingdom, and its telephone number at that address is +44 (0) 845 126 2944.

Barley Pub Company Limited was incorporated on December 19, 2007 as a private limited company under the laws of England and Wales. The registered office of Barley Pub Company Limited in the United Kingdom is Porter Tun House, 500 Capability Green, Luton, Bedfordshire, LU1 3LS, United Kingdom, and its telephone number at that address is +44 (0) 845 126 2944.

Hops Pub Company Limited was incorporated on December 19, 2007 as a private limited company under the laws of England and Wales. The registered office of Hops Pub Company Limited in the United Kingdom is Porter Tun House, 500 Capability Green, Luton, Bedfordshire, LU1 3LS, United Kingdom, and its telephone number at that address is +44 (0) 845 126 2944.

Plato Restaurant Holdings Limited was incorporated under the laws of the Cayman Islands on May 15, 2007 as an exempted company with limited liability. The registered office of Plato Restaurant Holdings Limited in the Cayman Islands is at the offices of Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.

Bay Restaurant Holdings Limited was incorporated under the laws of the Cayman Islands on April 11, 2007 as an exempted company with limited liability. The registered office of Bay Restaurant Holdings Limited in the Cayman Islands is at the offices of Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.

Bay Restaurant Group Limited was incorporated on December 19, 2007 as a private limited company under the laws of England and Wales. The registered office of Bay Restaurant Group Limited in the United Kingdom is Porter Tun House, 500 Capability Green, Luton, Bedfordshire, LU1 3LS, United Kingdom, and its telephone number at that address is +44 (0) 845 126 2944.

Slug and Lettuce Company Limited was incorporated on June 27, 2007 as a private limited company under the laws of England and Wales. The registered office of Slug and Lettuce Company Limited in the United Kingdom is Porter Tun House, 500 Capability Green, Luton, Bedfordshire, LU1 3LS, United Kingdom, and its telephone number at that address is +44 (0) 845 126 2944.

Hull Propco Limited was incorporated on September 18, 2015 as a private limited company under the laws of England and Wales. The registered office of Hull Propco Limited in the United Kingdom is Porter Tun House, 500 Capability Green, Luton, Bedfordshire, LU1 3LS, United Kingdom, and its telephone number at that address is +44 (0) 845 126 2944.

Falcon Propco 1 Limited was incorporated on January 27, 2017 as a private limited company under the laws of England and Wales. The registered office of Falcon Propco 1 Limited in the United Kingdom is Porter Tun House, 500 Capability Green, Luton, Bedfordshire, LU1 3LS, United Kingdom, and its telephone number at that address is +44 (0) 845 126 2944.

Intertain Limited was incorporated on August 20, 2009 as a private limited company under the laws of England and Wales. The registered office of Intertain Limited in the United Kingdom is Porter Tun House, 500 Capability Green, Luton, Bedfordshire, LU1 3LS, United Kingdom, and its telephone number at that address is +44 (0) 845 126 2944.

Intertain (Bars) Limited was incorporated on September 30, 2009 as a private limited company under the laws of England and Wales. The registered office of Intertain (Bars) Limited in the United Kingdom is Porter Tun House, 500 Capability Green, Luton, Bedfordshire, LU1 3LS, United Kingdom, and its telephone number at that address is +44 (0) 845 126 2944.

Intertain (Bars) II Limited was incorporated on March 10, 2015 as a private limited company under the laws of England and Wales. The registered office of Intertain (Bars) II Limited in the United Kingdom is Porter Tun House, 500 Capability Green, Luton, Bedfordshire, LU1 3LS, United Kingdom, and its telephone number at that address is +44 (0) 845 126 2944.

Intertain (Bars) III Limited was incorporated on May 14, 2015 as a private limited company under the laws of England and Wales. The registered office of Intertain (Bars) III Limited in the United Kingdom is Porter Tun House, 500 Capability Green, Luton, Bedfordshire, LU1 3LS, United Kingdom, and its telephone number at that address is +44 (0) 845 126 2944.

Intertain (Bars) IV Limited was incorporated on May 14, 2015 as a private limited company under the laws of England and Wales. The registered office of Intertain (Bars) IV Limited in the United Kingdom is Porter Tun House, 500 Capability Green, Luton, Bedfordshire, LU1 3LS, United Kingdom, and its telephone number at that address is +44 (0) 845 126 2944.

Be At One Holdings Limited was incorporated on October 3, 2011 as a private limited company under the laws of England and Wales. The registered office of Be At One Holdings Limited in the United Kingdom is Porter Tun House, 500 Capability Green, Luton, Bedfordshire, LU1 3LS, United Kingdom, and its telephone number at that address is +44 (0) 845 126 2944.

Be At One Limited was incorporated on October 19, 2000 as a private limited company under the laws of England and Wales. The registered office of Be At One Limited in the United Kingdom is Porter Tun House, 500 Capability Green, Luton, Bedfordshire, LU1 3LS, United Kingdom, and its telephone number at that address is +44 (0) 845 126 2944.

Ei Group Limited was incorporated on November 27, 1990 as a private limited company under the laws of England and Wales. The registered office of Ei Group Limited in the United Kingdom is 3 Monkspath Hall Road, Shirley, Solihull, West Midlands, B90 4SJ United Kingdom, and its telephone number at that address is +44 (0) 121 272 5000.

Enterprise Managed Investments Limited was incorporated on December 6, 2013 as a private limited company under the laws of England and Wales. The registered office of Enterprise Managed Investments Limited in the United Kingdom is 3 Monkspath Hall Road, Shirley, Solihull, West Midlands, B90 4SJ, United Kingdom, and its telephone number at that address is +44 (0) 121 272 5000.

The Craft Union Pub Company Limited was incorporated on February 9, 2015 as a private limited company under the laws of England and Wales. The registered office of The Craft Union Pub Company Limited in the United Kingdom is 3 Monkspath Hall Road, Shirley, Solihull, West Midlands, B90 4SJ, United Kingdom, and its telephone number at that address is +44 (0) 121 272 5000.

Financial Year and Annual Financial Statements

We will prepare and publish annual audited consolidated financial statements. Any future published financial statements prepared by Stonegate Group will be available, during normal business hours, at the executive offices of the Parent.

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INDEX TO FINANCIAL STATEMENTS

Financial Statements of Stonegate Group

Financial Statements of Ei Group

Stonegate Pub Company Limited

Condensed Consolidated Interim Financial Information

For the 28 weeks ended 12 April 2020

Consolidated income statement

For the 28 weeks ended 12 April 2020

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

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

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

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

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

Consolidated statement of comprehensive income

For the 28 weeks ended 12 April 2020

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

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

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

Consolidated balance sheet

As at 12 April 2020

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

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

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

Consolidated statement of changes in equity

As at 12 April 2020

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

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

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

Consolidated cash flow statement

For the 28 weeks ended 12 April 2020

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

* Refer to Note 1 for details of the restatement.

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

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

Notes to the financial statements

For the 28 weeks ended 12 April 2020

1 Accounting policies

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

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

The results for the current and comparative period are unaudited.

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

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

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

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

1.1 Measurement convention

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

1.2 Going concern

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

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

The Group met its day-to-day working capital requirements through its standard trading cycle of cash generation and its £200 million combined overdraft and revolving credit facility. The Directors consider that this is a normal feature of trading in this industry. Customers pay by cash resulting in minimal credit risk and the Group takes advantage of supplier credit terms. Therefore the Group typically operates with net current assets (current period net current assets of £89 million; 2019: net current liabilities of £76 million). At the period end the Group had drawn down £175 million of its revolving credit facility (2019: £Nil) and agreed a waiver on its covenant requirements for Quarter 3 and Quarter 4 2020.

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

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

1 Accounting policies (Continued)

1.2 Going concern (Continued)

Subsequent to the balance sheet date the Group:

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

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

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

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

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

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

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

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

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

1.3 Basis of consolidation

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

1 Accounting policies (Continued)

1.3 Basis of consolidation (Continued)

has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

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

1.4 Key accounting judgements and estimates

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

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

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

Key accounting judgements

The following are the key judgements, apart from those involving estimations, dealt with separately below, that management have made in the process of applying the Group's accounting policies and which have the most significant effect on the amounts recognised in the financial statements.

Exceptional items

During the period certain items are identified and separately disclosed as exceptional. Judgement is applied as to whether the item meets the necessary criteria as per the accounting policy disclosed. This assessment covers the nature of the item, cause of occurrence and the scale of impact of that item on reported performance. Note 4 provides information on all of the items disclosed as exceptional in the current and previous period.

Key areas of estimation

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

Impairment of property, plant, equipment and operating leases

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

Defined pension benefit schemes

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

1 Accounting policies (Continued)

1.4 Key accounting judgements and estimates (Continued)

Business combinations

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

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

1.5 Changes in significant accounting policies

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

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

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

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

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

Definition of a lease

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

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

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

As a lessee

The Group lease properties and vehicles.

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

1 Accounting policies (Continued)

1.5 Changes in significant accounting policies (Continued)

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

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

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

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

Significant accounting policies

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

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

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

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

Transition

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

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

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

1 Accounting policies (Continued)

1.5 Changes in significant accounting policies (Continued)

Impacts on transition

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

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

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

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

Impacts for the period

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

1.6 Non-derivative financial instruments

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

Trade and other receivables

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

Trade and other payables

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

Cash and cash equivalents

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

1 Accounting policies (Continued)

1.6 Non-derivative financial instruments (Continued)

Interest-bearing borrowings

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

1.7 Derivative financial instruments and hedging

Derivative financial instruments

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

1.8 Property, plant and equipment

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

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

- freehold properties are depreciated to their estimated residual values over 50 years;
- leasehold properties and improvements are depreciated over the shortest of 50 years, their estimated useful lives and their remaining lease periods;
- administration furniture, fixtures, fittings and equipment are depreciated over 2 to 15 years;
- retail furniture, fixtures and equipment are depreciated over 3 to 15 years;
- right-of-use assets are depreciated over their lease lives;
- long-life landlords fixtures and fittings are depreciated over 30 years; and
- short-life landlords fixtures and fittings are depreciated over 5 years.

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

The group capitalises employment costs and related personal expenses of individuals whose job roles are fundamentally associated with managing or implementing the Group's capital development programme. Judgement is therefore applied in determining the element of internal labour costs which are directly attributable to capital projects. Where such an individual undertakes non-capital expenditure related activities as part of their job roles then a proportion of their cost is not capitalised unless the non-capital expenditure related activities are incidental to their role.

1.9 Investment property

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

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

Transfers are made to/from investment property when there is change of use evidenced by a change in the lease terms. When a property transfers from property, plant and equipment to investment property it is revalued to fair value. Surpluses arising from the revaluation exercise are taken through other comprehensive income to the revaluation reserve except where they reverse a revaluation decrease relating

1 Accounting policies (Continued)

1.9 Investment property (Continued)

to the same asset previously recognised as an expense in the income statement. Any deficit arising from the revaluation exercise is taken through other comprehensive income to the revaluation reserve to the extent that there is a surplus in place relating to the same asset. When a property transfers from investment property to property, plant and equipment it is revalued to fair value and the movement recognised in the income statement.

1.10 Non-current assets held for sale

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

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

1.11 Business combinations

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

Acquisitions post transition date

For acquisitions on or after 26 September 2011, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquire, if any; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

1.12 Intangible assets and goodwill

Goodwill

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

1 Accounting policies (Continued)

1.12 Intangible assets and goodwill (Continued)

Brand

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

1.13 Inventories

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

1.14 Trade receivables and trade payables

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

1.15 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

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

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

Non-financial assets

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

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

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

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

1 Accounting policies (Continued)

1.15 Impairment excluding inventories and deferred tax assets (Continued)

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.

1.16 Employee benefits

Defined contribution plans

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

Defined benefit plans

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

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

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

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

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

Short-term benefits

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

1 Accounting policies (Continued)

1.17 Provisions

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

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

1.18 Revenue

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

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

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

Drink and food

Revenue is recognised at the point at which drinks and food are provided based on till receipts take in the

Group's licensed estate. Promotional discounts are recorded at point of sale. Revenue is reported on product sales net of VAT and discounts applied.

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

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

Publican Partnerships

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

Rent

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

Other services

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

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

1.19 Government Grant

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

1 Accounting policies (Continued)

1.20 Expenses

Leases

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

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

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

Financing income and expenses

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

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

1.21 Taxation

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

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

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

1.22 Exceptional items

The Group presents separately on the face of the income statement those material items of income and expense which are outside of the normal course of trading, which management consider will distort comparability, in order to provide a trend measure of underlying performance. These costs are discussed further in note 4.

2. Segmental reporting

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

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

2. Segmental reporting (Continued)

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

This results in three reportable segments being:

1) Publican Partnerships—Rental income and revenue from supply of drinks and gaming machines

2) Commercial Properties—Rental income

3) Managed—Revenue from the sale of food, drink, accommodation and gaming machine income

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

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

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

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

3. Other income

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

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

4. Exceptional operating items

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

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

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

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

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

5. Taxation

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

6. Finance costs

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

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

7. Goodwill, operating leases and brand intangible assets

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

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

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

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

8. Property, plant and equipment

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

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

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

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

9. Impairment losses

Property, plant and equipment

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

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

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

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

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

Goodwill

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

The carrying amount of goodwill has been compared to its recoverable amount and involved calculating an overall value in use, using discounted cash flow projections. The value in use calculation is based on forecast earnings before interest and taxation over a five year period, taking into accounts the impact of expected closure period and subsequent build up in trade post reopening, as a direct result of the Covid-19 pandemic, the pre-tax discount rate and the growth rate used to extrapolate cash flows beyond the budgeted period. The pre-tax risk adjusted discount rate applied to cash flow projections was 8.0% (2019 52 weeks 8.15%). Management has estimated the discount rate by reference to past experience and an industry average weighted cost of capital as adjusted for appropriate risk factors reflecting current economic conditions and the risk profile of the CGUs.

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

10. Investment property

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

11. Non-current assets held for sale

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

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

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

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

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

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

12. Acquisitions and disposals

Acquisitions in the current period

Ei Group Limited

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

12. Acquisitions and disposals (Continued)

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

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

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

The Group incurred acquisition-related costs of £34,800,000 related to stamp duty and external legal professional fees. These costs have been included in 'exceptional operating costs' in the consolidated income statement (see note 4).

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

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

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

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

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

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

Other acquisitions:

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

Disposals

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

12. Acquisitions and disposals (Continued)

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

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

Total profit on disposal was £117,000.

13. Trade and other receivables

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

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

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

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

14. Trade and other payables

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

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

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

15. Borrowings

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

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

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

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

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

Terms and debt repayment schedule:

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

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

15. Borrowings (Continued)

The notes will mature between 2025 and 2027.

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

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

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

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

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

The notes will mature between 2024 and 2032.

16. Provisions

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

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

The health and safety claims provision is an estimate of the claims which the Group expects to settle over the next two years. These claims generally relate to minor incidents of personal injury at sites and the level of provision has been based on managements' expected future successful claim rate.

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

17. Net debt

Analysis of changes in net debt:

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

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

18. Pensions

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

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

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

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

19. Related party transactions

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

Transactions with Group undertakings

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

19. Related party transactions (Continued)

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

20. Post balance sheet events

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

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

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

Stonegate Pub Company Limited

Condensed Consolidated Interim Financial Information

For the 16 weeks ended 19 January 2020

Consolidated income statement

For the 16 weeks ended 19 January 2020

	Notes	Unaudited 16 weeks ended 19 January 2020 Pre-exceptional items	Exceptional items[1]	Total	Unaudited 16 weeks ended 20 January 2019 Pre-exceptional items	Exceptional items[1]	Total
		£000	£000	£000	£000	£000	£000
Revenue		**279,032**	**—**	**279,032**	258,206	—	258,206
Operating costs		**(216,168)**	**(823)**	**(216,991)**	(221,424)	(17,922)	(239,346)
Operating profit before depreciation, amortisation, impairment and loss on sale of non-current assets		**62,864**	**(823)**	**62,041**	36,782	(17,922)	18,860
Depreciation, amortisation and impairment		**(37,251)**	**(200)**	**(37,451)**	(20,895)	—	(20,895)
Loss on sale of non-current assets	8	**(436)**	**—**	**(436)**	(280)	—	(280)
Operating profit/(loss)		**25,177**	**(1,023)**	**24,154**	15,607	(17,922)	(2,315)
Finance income	4	**1**	**—**	**1**	8	—	8
Finance costs	5	**(22,253)**	**(82)**	**(22,335)**	(12,681)	(36)	(12,717)
Profit/(loss) before taxation		**2,925**	**(1,105)**	**1,820**	2,934	(17,958)	(15,024)
Income tax charge	3	**(12)**	**—**	**(12)**	(641)	—	(641)
Profit/(loss) for the period		**2,913**	**(1,105)**	**1,808**	2,293	(17,958)	(15,665)

[1] Exceptional items are explained further in note 2.

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

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

The notes on pages 6 to 27 form part of the condensed consolidated interim financial information.

Consolidated statement of comprehensive income

For the 16 weeks ended 19 January 2020

	Notes	Unaudited 16 weeks ended 19 January 2020	Unaudited 16 weeks ended 20 January 2019
		£000	£000
Profit/(loss) for the period		**1,808**	(15,665)
Items that will not be reclassified to profit or loss			
Re-measurement of defined benefit pension schemes		**—**	—
Other comprehensive loss after tax		**—**	—
Total comprehensive profit/(loss) for the period		**1,808**	(15,665)

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

The notes on pages 6 to 27 form part of the condensed consolidated interim financial information.

Consolidated balance sheet

As at 19 January 2020

	Notes	Unaudited 19 January 2020	Unaudited 20 January 2019	Audited 29 September 2019
		£000	£000	£000
Assets				
Non-current assets				
Property, plant and equipment	7	**1,232,520**	539,091	550,437
Brand	6	**4,488**	5,061	4,664
Operating leases	6	**—**	136,309	149,540
Goodwill	6	**141,739**	127,359	141,890
Trade and other receivables	9	**5,847**	—	5,847
Retirement benefit surplus	14	**1,030**	912	1,030
		1,385,624	808,732	853,408
Current assets				
Inventories		**14,064**	12,880	13,224
Trade and other receivables	9	**34,005**	32,305	38,876
Cash and cash equivalents		**16,081**	18,565	22,351
		64,150	63,750	74,451
Total assets		**1,449,774**	872,482	927,859
Liabilities				
Current liabilities				
Trade and other payables	10	**(135,430)**	(129,965)	(140,342)
Borrowings	11	**(39,714)**	(114,544)	(17,112)
		(175,144)	(244,509)	(157,454)
Non-current liabilities				
Borrowings	11	**(1,248,372)**	(591,363)	(738,882)
Deferred tax liabilities		**(21,146)**	(15,023)	(21,134)
Retirement benefit obligations	14	**(7,687)**	(3,746)	(7,700)
Provisions	12	**(5,975)**	(16,056)	(13,512)
		(1,283,180)	(626,188)	(781,228)
Total liabilities		**(1,458,324)**	(870,697)	(938,682)
Net (liabilities)/assets		**(8,550)**	1,785	(10,823)
Equity				
Called up share capital		**1,736**	1,736	1,736
Share premium		**97,047**	97,047	97,047
Retained earnings		**(107,333)**	(96,998)	(109,606)
Total (deficit)/equity		**(8,550)**	1,785	(10,823)

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

The notes on pages 6 to 27 form part of the condensed consolidated interim financial information.

Consolidated statement of changes in equity

As at 19 January 2020

	Unaudited Share capital	Unaudited Share premium	Unaudited Retained earnings	Unaudited Total equity
	£000	£000	£000	£000
Total equity at 29 September 2019	**1,736**	**97,047**	**(109,606)**	**(10,823)**
Adjustment on initial application of IFRS 16 (net of tax)	**—**	**—**	**465**	**465**
Adjusted balance at 30 September 2019	**1,736**	**97,047**	**(109,141)**	**(10,358)**
Total comprehensive income:				
Profit for the period	—	—	1,808	1,808
Total comprehensive profits for the period	—	—	1,808	1,808
Total equity at 19 January 2020	**1,736**	**97,047**	**(107,333)**	**(8,550)**
Total equity at 30 September 2018	**1,685**	**81,647**	**(81,333)**	**1,999**
Total comprehensive profit:				
Loss for the period	—	—	(15,665)	(15,665)
Share issue	51	15,400	—	15,451
Total comprehensive profits for the period	51	15,400	(15,665)	(214)
Total equity at 20 January 2019	**1,736**	**97,047**	**(96,998)**	**1,785**

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

The notes on pages 6 to 27 form part of the condensed consolidated interim financial information.

Consolidated cash flow statement

For the 16 weeks ended 19 January 2020

	Unaudited 16 weeks ended 19 January 2020	Unaudited 16 weeks ended 20 January 2019
	£000	£000
Cash flows from operating activities		
Profit/(loss) for the period	**1,808**	(15,665)
Adjustments for:		
—Depreciation, amortisation and impairment	**37,451**	20,895
—Loss on sale of non-current assets	**436**	280
—Net finance costs	**22,334**	12,709
—UK income tax charge	**12**	641
	62,041	18,860
Changes in:		
—Inventories	**(840)**	(470)
—Receivables	**(7,520)**	(1,636)
—Payables	**(3,401)**	1,850
—Difference between pension charge and cash contributions	**(13)**	(290)
Cash generated from operating activities	**50,267**	18,314
Interest paid	**(5,390)**	(3,542)
Net cash flow from operating activities	**44,877**	14,772
Cash flows from investing activities		
Purchase of property, plant and equipment	**(24,956)**	(24,472)
Net proceeds from sale of property, plant and equipment	**608**	22
Interest received	**1**	—
Payments for business acquisitions	**—**	(23,575)
Net cash flow from investing activities	**(24,347)**	(48,025)
Cash flows from financing activities		
Issue of share capital	**—**	15,451
Advance of borrowings	**—**	17,847
Repayment of borrowings	**(3,000)**	(21,000)
Financing costs	**(277)**	(66)
Payment of lease liabilities	**(15,929)**	—
Net cash flow from financing activities	**(19,206)**	12,232
Net increase/(decrease) in cash and cash equivalents	**1,324**	(21,021)
Opening cash and cash equivalents	**8,526**	15,551
Closing cash and cash equivalents	**9,850**	(5,470)

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

The notes on pages 6 to 27 form part of the condensed consolidated interim financial information.

Notes to the financial statements

For the 16 weeks ended 19 January 2020

1 Accounting policies

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

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

The results for the current and comparative period are unaudited.

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

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

1.1 Measurement convention

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

1.2 Going concern

The financial position of the Group is set out in the Consolidated Balance Sheet on page 3 which shows net liabilities of £8,550,000 (2019: £1,785,000 net assets).

During the current period the Group has experienced a net cash inflow of £1,324,000 (2019: cash outflow of £21,021,000) driven by a decrease in exceptional costs compared to 2019. Exceptional costs in the current period are £1,105,000 compared to £17,958,000 in 2019 with the decrease predominantly arising as a result of there not being a discretionary exit bonus in the current period.

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 £107,285,000; 2019: net current liabilities of £180,759,000). 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 £Nil of its revolving credit facility (2019: £4,000,000).

At the balance sheet date, the Group was financed by fixed and floating rate loan notes totalling £745,000,000 (2019: £595,000,000), details of which are set out in note 10. On 30 January 2019 Stonegate Pub Company Financing plc received £149,250,000 from the issue of £150,000,000 discounted floating loan notes charging an annual interest rate of 3 months LIBOR + 6.25%. The Group also repaid its bridging finance facility of £120,741,000.

As a result of the acquisition of the entire share capital of Ei Group Limited on 3 March 2020:

- Stonegate Pub Company Financing 2019 plc received a £1,450 million bridging loan;
- Stonegate Pub Company Bidco Limited received a £450 million Senior Term Loan as well as a £400 million Second Lien Facility; and
- The Group repaid its Secured Fixed and Floating Notes of £745 million and Ei Group Limited external debt of £1,209 million.
- Privately placed £500 million of loan notes which replaced the £450 million Senior Term loan;
- Extended their RCF facility by £50 million and received a £50 million cash injection from TDR Capital LLP.

1 Accounting policies (Continued)

1.2 Going concern (Continued)

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

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

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

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

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

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

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

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

1.3 Basis of consolidation

The condensed consolidated interim financial information includes the financial statements of the Company and its subsidiary undertakings made up to 19 January 2020. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

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

1 Accounting policies (Continued)

1.4 Key accounting judgements and estimates

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

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

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

Key accounting judgements

The following are the key judgements, apart from those involving estimations, dealt with separately below, that management have made in the process of applying the Group's accounting policies and which have the most significant effect on the amounts recognised in the financial statements.

Exceptional items

During the period certain items are identified and separately disclosed as exceptional. Judgement is applied as to whether the item meets the necessary criteria as per the accounting policy disclosed. This assessment covers the nature of the item, cause of occurrence and the scale of impact of that item on reported performance. Note 2 provides information on all of the items disclosed as exceptional in the current and previous period.

Key areas of estimation

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

Impairment of property, plant, equipment and operating leases

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

Defined pension benefit schemes

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

Business combinations

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

Note 7 describes the business combinations in the current and prior periods and provides details of the fair value adjustments made in arriving at the fair value of assets and liabilities acquired.

1.5 Changes in significant accounting policies

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

1 Accounting policies (Continued)

1.5 Changes in significant accounting policies (Continued)

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

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

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

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

Definition of a lease

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

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

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

As a lessee

The Group lease properties and vehicles.

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

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

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

	Property, plant and equipment		
	Property	**Vehicles**	**Total**
	£000	**£000**	**£000**
Balance at 30 September 2019	693,151	537	693,688
Balance at 19 January 2020	**672,810**	**454**	**673,264**

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

1 Accounting policies (Continued)

1.5 Changes in significant accounting policies (Continued)

Significant accounting policies

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

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

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

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

Transition

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

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

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

Impacts on transition

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

	30 September 2019
	£000
Right-of-use assets presented in property plant and equipment	**692,255**
Operating leases	**(149,540)**
Trade and other receivables	**(12,160)**
Trade and other payables	**8,780**
Provisions	**7,537**
Lease liabilities	**(546,406)**
Retained earnings	**(466)**

1 Accounting policies (Continued)

1.5 Changes in significant accounting policies (Continued)

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

	30 September 2019
	£000
Operating lease commitment at 29 September 2019 as disclosed in the Group's consolidated financial statements	**793,126**
Impact of discounting using the incremental rate at 30 September 2019	**(304,363)**
Change in assessment of lease term under IFRS 16	**57,643**
Lease liabilities recognised at 30 September 2019	**546,406**

Impacts for the period

In relation to those leases under IFRS 16, for the 16 weeks ending 19 January 2020, the Group's operating profit metric improved by £5,931,000 as the new depreciation expense is lower than the IAS 17 operating lease charge; however net finance costs are higher than this, at £8,872,000, such that net profit after tax and the operating profit before depreciation, amortisation, impairment and loss on sale of non-current assets are lower compared to the previous IAS 17 reporting basis.

1.6 Non-derivative financial instruments

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

Trade and other receivables

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

Trade and other payables

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

Cash and cash equivalents

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

Interest-bearing borrowings

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

1.7 Derivative financial instruments and hedging

Derivative financial instruments

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

1.8 Property, plant and equipment

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

1 Accounting policies (Continued)

1.8 Property, plant and equipment (Continued)

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; and
- right-of-use assets are depreciated over their lease lives.

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

The group capitalises employment costs and related personal expenses of individuals whose job roles are fundamentally associated with managing or implementing the Group's capital development programme. Judgement is therefore applied in determining the element of internal labour costs which are directly attributable to capital projects. Where such an individual undertakes non-capital expenditure related activities as part of their job roles then a proportion of their cost is not capitalised unless the non-capital expenditure related activities are incidental to their role.

1.9 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.

1.10 Business combinations

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

Acquisitions post transition date

For acquisitions on or after 26 September 2011, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquire, if any; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

1.11 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.

1 Accounting policies (Continued)

1.11 Intangible assets and goodwill (Continued)

Brand

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

1.12 Inventories

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

1.13 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

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

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

Non-financial assets

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

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

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

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

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

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

1 Accounting policies (Continued)

1.14 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.

1.15 Provisions

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

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

1.16 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 to the extent that it is probable that the economic benefits will flow to the Group and is measured at the fair value of consideration receivable, excluding discounts, rebates and other sales taxes or duty.

1 Accounting policies (Continued)

1.16 Revenue (Continued)

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

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

Drink and food

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

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

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

Other services

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

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

1.17 Expenses

Leases

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

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

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

Financing income and expenses

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

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

1.18 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

1 Accounting policies (Continued)

1.18 Taxation (Continued)

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.

1.19 Exceptional items

The Group presents separately on the face of the income statement those material items of income and expense which are outside of the normal course of trading, which management consider will distort comparability, in order to provide a trend measure of underlying performance. These costs are discussed further in note 2.

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.

2. Exceptional operating items

	16 weeks ended 19 January 2020	16 weeks ended 20 January 2019
	£000	£000
Operating exceptional items		
Acquisition costs	**315**	987
Integration costs	**508**	1,444
Discretionary exit bonus	**—**	15,491
Impairment of property, plant and equipment (note 7)	**200**	—
	1,023	17,922
Finance costs	**82**	36
Total exceptional items	**1,105**	17,958

Acquisition costs: Acquisition costs are items of one-off expenditure incurred, primarily, in connection with the business combination activities. These costs include legal and professional fees and stamp duties which are expensed as incurred.

Integration costs: Following the acquisitions, the Group incurred costs to combine and streamline the operations of the acquired businesses with the Group.

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

Finance costs: Finance costs relate to the repayment of the bridging finance facility in the current and previous period. The costs associated with this are considered as exceptional in nature.

3. Taxation

	16 weeks ended 19 January 2020	16 weeks ended 20 January 2019
	£000	£000
Tax charged in the income statement		
Current tax:		
—UK corporation tax	**—**	—
Total current tax charge	**—**	—
Deferred tax:		
—Origination and reversal of temporary differences	**12**	641
—Adjustments in respect of previous periods	**—**	—
—Rate change	**—**	—
Total deferred tax charge	**12**	641
Total current and deferred tax charged in the income statement	**12**	641

4. Finance income

	16 weeks ended 19 January 2020	16 weeks ended 20 January 2019
	£000	£000
Other interest receivable	**1**	8
Total finance income	**1**	8

5. Finance costs

	16 weeks ended 19 January 2020	16 weeks ended 20 January 2019
	£000	£000
Interest payable on loan notes	**12,415**	9,132
Other interest payable	**216**	1,868
Debt issue costs amortisation	**689**	1,567
Refinancing costs	**82**	42
Non-utilisation and commitment fees	**61**	66
Unwinding of discount element of provisions	**—**	42
Discounting of lease liabilities	**8,872**	—
Total finance costs	**22,335**	12,717

Included within finance costs are £82,000 of costs (2019: £36,000) relating to exceptional items (see note 2).

6. Goodwill, operating leases and brand intangible assets

	Brand	Operating leases	Goodwill
	£000	£000	£000
Cost			
At 30 September 2018	5,728	144,999	128,784
Acquisitions through business combinations	—	47,361	17,180
Disposals	—	(250)	(264)
Fully depreciated assets	—	(250)	—
At 29 September 2019	5,728	191,860	145,700
Acquisitions through business combinations	—	—	—
Disposals	—	—	(151)
Adoption of IFRS 16	—	(191,860)	—
At 19 January 2020	5,728	—	145,549
Amortisation			
At 30 September 2018	(491)	(25,270)	(3,810)
Charge for the year	(573)	(16,414)	—
Impairment	—	(1,069)	—
Disposals	—	183	—
Fully depreciated assets	—	250	—
At 29 September 2019	(1,064)	(42,320)	(3,810)
Charge in the period	(176)	—	—
Disposals	—	—	—
Adoption of IFRS 16	—	42,320	—
At 19 January 2020	(1,240)	—	(3,810)
Net book value			
At 19 January 2020	**4,488**	**—**	**141,739**
At 29 September 2019	4,664	149,540	141,890
At 30 September 2018	5,237	119,729	124,974

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

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

7. Property, plant and equipment

	Right-of-use assets	Land and buildings	Leasehold improvements	Furniture, fixtures and equipment	Total
	£000	£000	£000	£000	£000
Cost					
At 30 September 2018	—	330,531	126,622	243,850	701,003
Acquisitions through business combinations	—	—	—	730	730
Additions	—	6,512	18,597	58,398	83,507
Disposals	—	(1,860)	(953)	(6,957)	(9,770)
Fully depreciated assets	—	(414)	(1,954)	(19,001)	(21,369)
At 29 September 2019	—	334,769	142,312	277,020	754,101
Adoption of IFRS 16	695,310	—	—	—	695,310
Additions	—	1,891	5,935	17,115	24,941
Disposals	—	(541)	(222)	(597)	(1,360)
At 19 January 2020	695,310	336,119	148,025	293,538	1,472,992
Depreciation					
At 30 September 2018	—	(9,577)	(43,646)	(116,750)	(169,973)
Charge for the period	—	(1,580)	(9,896)	(44,821)	(56,297)
Impairment	—	(1,864)	(1,416)	(946)	(4,226)
Disposals	—	191	729	4,543	5,463
Fully depreciated assets	—	414	1,954	19,001	21,369
At 29 September 2019	—	(12,416)	(52,275)	(138,973)	(203,664)
Charge for the period	(18,337)	(528)	(3,349)	(14,861)	(37,075)
Impairment	—	—	(26)	(174)	(200)
Disposals	—	39	38	390	467
At 19 January 2020	(18,337)	(12,905)	(55,612)	(153,618)	(240,472)
Net book value					
At 19 January 2020	**676,973**	**323,214**	**92,413**	**139,920**	**1,232,520**
At 29 September 2019	—	322,353	90,037	138,047	550,437
At 30 September 2018	—	320,954	82,976	127,100	531,030

The Group has initially applied IFRS 16 at 30 September 2019, using the modified retrospective approach. Under this approach, operating lease intangibles with a net book value of £149,540,000 have been reclassified to property, plant and equipment. During the period the Group recognised a right-of use asset of £545,770,000 (after adjustments for onerous lease provisions, lease prepayments and accrued lease expenses at 30 September 2019).

Included in property, plant and equipment are properties with a net book value of £312,095,000 over which the Group's borrowings are secured by way of fixed and floating charges.

Land and buildings includes £11,978,000 (2019: £11,978,000) relating to long leasehold sites; £190,243,000 of freehold land (2019: £192,324,000) and £120,993,000 of freehold properties (2019: £118,864,000).

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

Indicators of impairment were found in each of the periods ended 19 January 2020 and 20 January 2019 on a small number of individual CGUs and consequently impairment reviews were carried out on the affected CGUs. Impairments totalling £200,000 (2019: £4,226,000) were identified.

8. Disposals

During the period the Group disposed of two sites to third parties for net consideration of £608,000, tangible fixed assets with net book values of £893,000 and goodwill with a net book value of £151,000. Loss on disposal was £436,000.

9. Trade and other receivables

	19 January 2020	20 January 2019
	£000	£000
Trade receivables	**9,158**	4,128
Amounts due from group undertakings	**5,900**	—
Other receivables	**5,350**	9,632
Prepayments and accrued income	**17,553**	18,545
Corporation tax debtor	**1,891**	—
	39,852	32,305

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

10. Trade and other payables

	19 January 2020	20 January 2019
	£000	£000
Trade payables	**62,692**	50,837
Amounts due to group undertakings	**1,789**	1,415
Other taxation and social security	**22,321**	20,614
Corporation tax payable	**—**	1,696
Other payables	**18,866**	18,850
Accruals	**29,762**	36,553
	135,430	129,965

11. Borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost.

	19 January 2020	20 January 2019
	£000	£000
Current liabilities		
Bank overdrafts	**6,231**	24,035
Revolving credit facility	**—**	4,000
Bank loans	**—**	86,509
Lease liabilities	**33,483**	—
	39,714	114,544
Non-current liabilities		
Secured loan notes issued by Stonegate Pub Company Financing plc	**739,449**	591,363
Lease liabilities	**508,923**	—
	1,248,372	591,363

Non-current secured loan notes are shown net of debt issue costs of £5,031,000 (2019: £3,637,000) and a discount accrual of £233,000.

Current liabilities include £Nil (2019: £4,000,000) drawn down from the Group's revolving credit facility and charged annual interest of 3 months LIBOR +3% and is repayable on demand.

11. Borrowings (Continued)

In the prior period current liabilities also included £87,115,000 of bridging loans in relation to the purchase of Be At One and the Novus sites and are shown net of debt issue costs £606,000. The bridging loan facility was repaid as part of the refinancing on 30 January 2019.

As part of the transition to IFRS 16 current lease liabilities of £33,483,000 and non-current lease liabilities of £508,923,000 have been recognised having been discounted using the weighted-average rate of 5.26%.

Terms and debt repayment schedule:

	Principal borrowed	Year of maturity	Principal outstanding 19 January 2020	Principal outstanding 20 January 2019
	£000		£000	£000
Secured fixed notes	405,000	2022	**405,000**	405,000
Secured floating notes	340,000	2022	**340,000**	190,000
			745,000	595,000

On 16 March 2017 Stonegate Pub Company Financing plc, a public limited company incorporated under the laws of England and Wales and a wholly owned subsidiary of Stonegate Pub Company Limited, received £595,000,000 from the issue of £405,000,000 fixed loan notes charging an annual interest rate of 4.875% and £190,000,000 floating loan notes charging an annual interest rate of 3 months LIBOR + 4.375%.

On 30 January 2019 Stonegate Pub Company Financing plc received £149,250,000 from the issue of £150,000,0000 discounted floating loan notes charging an annual interest rate of 3 months LIBOR + 6.25%.

The notes will mature on 15 March 2022 and are listed on the Channel Islands stock exchange. Amortised debt issue costs of £5,031,000 offset the loan balance at the period end and a discount accrual of £157,000.

The proceeds from the issue of the loan notes on 16 March 2017 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 proceeds from the issue of the loan notes on 30 January 2019 were used to repay the bridging finance facility that was used to finance the acquisitions of Be At One Holdings Limited, Bar Fever Limited, certain pubs acquired from A3D2 Limited, finance the acquisition of certain businesses and assets of Balls Brothers (Emporium) Limited and Tank and Paddle Limited, finance certain capital expenditures in relation to these acquisitions and pay fees in connection with the transactions.

12. Provisions

	Onerous leases	Health and safety claims	Total
	£000	£000	£000
At 29 September 2019	9,814	3,698	13,512
Adjusted to right-of-use assets	(6,630)	—	(6,630)
Adjusted to retained earnings	(466)	—	(466)
Utilised	(441)	—	(441)
At 19 January 2020	**2,277**	**3,698**	**5,975**
At 30 September 2018	11,642	4,652	16,294
Utilised	(238)	—	(238)
At 20 January 2019	11,404	4,652	16,056

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

The health and safety claims provision is an estimate of the claims which the Group expects to settle over the next two years. These claims generally relate to minor incidents of personal injury at sites and the level of provision has been based on managements' expected future successful claim rate.

13. Net debt

Analysis of changes in net debt:

	At 29 September 2019	Cash flow	Non-cash movements	At 19 January 2020
	£000	£000	£000	£000
Cash at bank and in hand	22,351	(6,270)	—	16,081
Bank overdraft	(13,825)	7,594	—	(6,231)
Lease liabilities	—	(15,929)	(17,554)	(33,483)
	8,526	(14,605)	(17,554)	(23,633)
Debt due within one year	(3,000)	3,000	—	—
Debt due after one year	(744,407)	—	(508,996)	(1,253,403)
Net debt per balance sheet	**(738,881)**	**(11,605)**	**(526,550)**	**(1,277,036)**

	At 30 September 2018	Cash flow	Non-cash movements	At 20 January 2019
	£000	£000	£000	£000
Cash at bank and in hand	26,454	(7,889)	—	18,565
Bank overdraft	(10,903)	(13,132)	—	(24,035)
	15,551	(21,021)	—	(5,470)
Debt due within one year	(92,916)	1,801	—	(91,115)
Debt due after one year	(595,000)	—	—	(595,000)
Net debt per balance sheet	**(672,365)**	**(19,220)**	**—**	**(691,585)**

14. Pensions

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

The defined benefit obligation as at 19 January 2020 is calculated on a year-to-date basis, using the latest actuarial valuation as at 28 February 2017 and was updated for IAS 19 purposes to 19 January 2020 by a qualified independent actuary. The defined benefit plan assets have been updated to reflect their market value as at 19 January 2020. Differences between the expected return on assets and the actual return on assets have been recognised as an actuarial gain or loss in the consolidated statement of total recognised gains and losses in accordance with the Group's accounting policy.

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

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

15. Post balance sheet events

Subsequent to the period end, on 3 March 2020, Stonegate Pub Company Limited acquired the entire issued share capital of Ei Group plc for consideration of £1,265,366. This acquisition was financed through external debt as disclosed in Note 1.2.

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

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

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

stonegate
PUB COMPANY

Financial Statements

For the 52 weeks ended 29 September 2019

Registered number FC029833

Contents

Company information

Directors
Manjit Dale
Ian Payne
David Ross
Simon Longbottom
Brian Magnus

Secretary
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Grand Cayman, KY1-1111
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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 29 September 2019 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

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Stonegate Pub Company Limited
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Your ref

Our ref ab/

Contact Simon Haydn-Jones
Tel 0118 964 4971

19 January 2020

Dear Directors

Independent auditor's report to Stonegate Pub Company Limited ("the Company")

Opinion

We have audited the non-statutory Group accounts of Stonegate Pub Company Limited and its subsidiaries (collectively "the Group") for the 52 week period ended 29 September 2019 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, and related notes, including the accounting policies in note 1. These non-statutory Group accounts have been prepared for the reasons set out in note 1

In our opinion the non-statutory Group accounts:

- give a true and fair view of the state of the Group's affairs as at 29 September 2019 and of the Group's loss for the period then ended; and
- have been properly prepared in accordance with IFRSs as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and the terms of our engagement letter dated 16 January 2020. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to Britain exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as recoverability of goodwill and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the

Group and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period".

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the non-statutory Group accounts. In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how these risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group or the Company will continue in operation.

Other information

The directors are responsible for the other information, which comprises the Strategic report and the Directors' report. Our opinion on the non-statutory Group accounts does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our non-statutory Group accounts audit work, the information therein is materially misstated or inconsistent with the non-statutory Group accounts or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Directors' responsibilities

As explained more fully in their statement set out on page 14, the directors are responsible for: the preparation of the non-statutory Group accounts, which are intended by them to give a true and fair view; 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; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

Our report has been prepared for the Stonegate Pub Company Limited ("the Company"), and their respective directors ("the Addressees") solely in response to a request from the Addressees for an opinion from independent auditors on the truth and fairness of the non-statutory Group accounts. It has been released to the Addressees on the basis that our report shall not be copied, referred to or disclosed, in whole (save for the Addressees' own internal purposes) or in part, without our prior written consent.

Our report was designed to meet the agreed requirements of the Addressees determined by their needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Addressees for any purpose or in any context. Any party other than the Addressees who obtains access to our report or a copy and choose to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG LLP will accept no responsibility or liability in respect of our report to any other party.

KPMG LLP
Chartered Accountants
19 January 2020

Consolidated Income Statement

For the 52 weeks ended 29 September 2019

	Notes	52 weeks ended 29 September 2019 Pre-exceptional items	Exceptional items[1]	Total	53 weeks ended 30 September 2018 Pre-exceptional items	Exceptional items[1]	Total
		£000	£000	£000	£000	£000	£000
Revenue	2	**852,791**	**—**	**852,791**	774,390	—	774,390
Operating costs		**(727,482)**	**(24,893)**	**(752,375)**	(667,595)	(8,303)	(675,898)
Operating profit / (loss) before depreciation, amortisation, impairment and loss on sale of non-current assets		**125,309**	**(24,893)**	**100,416**	106,795	(8,303)	98,492
Depreciation and impairment		**(56,297)**	**(5,295)**	**(61,592)**	(49,997)	(2,715)	(52,712)
Amortisation of operating leases and brand		**(16,987)**	**—**	**(16,987)**	(8,709)	—	(8,709)
Total depreciation, amortisation and impairment		**(73,284)**	**(5,295)**	**(78,579)**	(58,706)	(2,715)	(61,421)
Loss on disposal of non-current assets	12	**(2,874)**	**—**	**(2,874)**	(7,214)	—	(7,214)
Operating profit / (loss)	3	**49,151**	**(30,188)**	**18,963**	40,875	(11,018)	29,857
Finance income	5	**130**	**—**	**130**	80	—	80
Finance costs	6	**(42,849)**	**(864)**	**(43,713)**	(34,354)	(64)	(34,418)
Profit / (loss) before taxation		**6,432**	**(31,052)**	**(24,620)**	6,601	(11,082)	(4,481)
UK income tax credit / (charge)	8	**5,144**	**(4,093)**	**1,051**	(1,998)	(1,034)	(3,032)
Profit / (loss) for the period attributable to owners of the parent company		**11,576**	**(35,145)**	**(23,569)**	4,603	(12,116)	(7,513)

1 Exceptional items are explained further in note 7.

The notes on pages 20 to 63 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the 52 weeks ended 29 September 2019

	Notes	52 weeks ended 29 September 2019	53 weeks ended 30 September 2018
		£000	£000
Loss for the period		**(23,569)**	(7,513)
Items that will not be reclassified to profit or loss			
Re-measurement of defined benefit pension schemes	23	**(5,668)**	3,300
Tax credit / (charge) relating to components of other comprehensive income	8	**964**	(561)
Other comprehensive (losses) / income after tax		**(4,704)**	2,739
Total comprehensive loss for the period		**(28,273)**	(4,774)

The notes on pages 20 to 63 form part of these financial statements.

Consolidated Balance Sheet

At 29 September 2019

	Notes	29 September 2019 £000	30 September 2018 £000
Assets			
Non-current assets			
Property, plant and equipment	9	**550,437**	531,030
Brand	10	**4,664**	5,237
Operating leases	10	**149,540**	119,729
Goodwill	10	**141,890**	124,974
Trade and other receivables	16	**5,847**	—
Retirement benefit surplus	23	**1,030**	912
		853,408	781,882
Current assets			
Inventories	15	**13,224**	12,410
Trade and other receivables	16	**38,876**	30,661
Cash and cash equivalents		**22,351**	26,454
		74,451	69,525
Total assets		**927,859**	851,407
Liabilities			
Current liabilities			
Trade and other payables	17	**(140,342)**	(119,867)
Borrowings	18	**(17,112)**	(103,819)
		(157,454)	(223,686)
Non-current liabilities			
Borrowings	18	**(738,882)**	(591,009)
Deferred tax liabilities	14	**(21,134)**	(14,383)
Retirement benefit obligations	23	**(7,700)**	(4,036)
Provisions	20	**(13,512)**	(16,294)
		(781,228)	(625,722)
Total liabilities		**(938,682)**	(849,408)
Net (liabilities) / assets		**(10,823)**	1,999
Equity			
Called up share capital	21	**1,736**	1,685
Share premium	21	**97,047**	81,647
Retained earnings		**(109,606)**	(81,333)
Total (deficit) / equity attributable to owners of the parent company		**(10,823)**	1,999

These financial statements were approved by the board of directors on 17 January 2020 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 29 September 2019

	Share capital	Share premium	Retained earnings	Total equity
	£000	£000	£000	£000
Total equity at 24 September 2017	**1,685**	**81,647**	**(76,559)**	**6,773**
Total comprehensive income / (losses):				
Losses for the period	—	—	(7,513)	(7,513)
Other comprehensive income for the period	—	—	2,739	2,739
Total comprehensive losses for the period	—	—	(4,774)	(4,774)
Total equity at 30 September 2018	**1,685**	**81,647**	**(81,333)**	**1,999**
Total comprehensive income / (losses):				
Losses for the period	—	—	(23,569)	(23,569)
Other comprehensive losses for the period	—	—	(4,704)	(4,704)
Total comprehensive losses for the period	—	—	(28,273)	(28,273)
Shares issued	51	15,400	—	15,451
Total equity at 29 September 2019	**1,736**	**97,047**	**(109,606)**	**(10,823)**

Consolidated Cash Flow Statement

For the 52 weeks ended 29 September 2019

	Notes	52 weeks ended 29 September 2019	53 weeks ended 30 September 2018
		£000	£000
Cash flows from operating activities			
Loss for the period		**(23,569)**	(7,513)
Adjustments for:			
—Depreciation, amortisation and impairment		**78,579**	61,421
—Loss on sale of non-current assets		**2,874**	7,214
—Net finance costs		**43,583**	34,338
—UK income tax (credit) / charge		**(1,051)**	3,032
		100,416	98,492
Changes in:			
—Inventories		**(167)**	(18)
—Receivables		**(12,240)**	4,320
—Payables		**16,170**	(15,122)
—Provisions		**(3,210)**	(260)
—Difference between pension contributions paid and amounts recognised in operating profit		**(2,181)**	(3,244)
Cash generated from operating activities		**98,788**	84,168
Interest paid		**(38,030)**	(30,848)
Income tax paid		**(2,179)**	(9)
Net cash flow from operating activities		**58,579**	53,311
Cash flows from investing activities			
Purchase of property, plant and equipment		**(82,569)**	(71,384)
Proceeds from sale of property, plant and equipment	12	**1,764**	6,510
Interest received		**25**	16
Payments for business acquisitions	12	**(57,347)**	(64,773)
Net cash acquired with trading sites	12	**3,503**	4,855
Net cash flow from investing activities		**(134,624)**	(124,776)
Cash flows from financing activities			
Advance of borrowings	18	**200,723**	86,268
Repayment of borrowings	18	**(142,741)**	—
Proceeds from share issue		**15,451**	—
Financing costs		**(4,413)**	(2,803)
Net cash flow from financing activities		**69,020**	83,465
Net (decrease)/increase in cash and cash equivalents		**(7,025)**	12,000
Opening cash and cash equivalents		**15,551**	3,551
Closing cash and cash equivalents		**8,526**	15,551

Notes to the consolidated financial statements

1 Accounting policies

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

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

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

No parent company information is presented in these consolidated financial statements, Companies Law (2013 Revision) in the Cayman Islands does not require such information to be presented. The parent company information has been prepared under FRS 102. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

1.1 Measurement convention

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

1.2 Going concern

The Group's principal activities, together with the principal risks and uncertainties factors likely to affect its future development, performance and position are set out in the Strategic and Directors' Reports on pages 2 to 13. The financial position of the Group is set out in the Consolidated Balance Sheet on page 17 which shows net liabilities of £10,823,000 (2018: net assets of £1,999,000). 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 £7,025,000 (2018: cash inflow of £12,000,000). The net cash outflow was mainly a result of the Group's investing activities.

The Group met its day-to-day working capital requirements through its standard trading cycle of cash generation and its £50,000,000 combined overdraft and revolving credit facility. The Directors consider that this is a normal feature of trading in this industry. Customers pay by cash resulting in minimal credit risk and the Group takes advantage of supplier credit terms. Therefore, the Group typically operates with net current liabilities with this financial year seeing a decrease as a result of a refinancing on 30 January 2019 when the Group repaid its bridging loan facility and received a further £149,250,000 of floating rate loan notes (current period net current liabilities of £83,003,000 (2018: net current liabilities of £154,161,000). In the forthcoming period the Group expects to continue to achieve year on year pre-exceptional operating profit growth (both organically and through acquisitions) and be cash generative at an operating cash flow level and at a total cash flow level. At the period end the Group had drawn down £3,000,000 of its revolving credit facility (2018: £25,000,000).

At the balance sheet date, the Group was financed by fixed and floating rate loan notes totalling £745,000,000 (2018: £595,000,000), 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 will be able to operate within the level of its current borrowing facility. Applying reasonably possible sales-based sensitivities year on year the Group's forecasts show that it would continue to operate within its facility and within financial covenants.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements and

1 Accounting policies (Continued)

1.2 Going concern (Continued)

for the foreseeable future thereafter. The directors have also considered the impact of the acquisition of Ei Group plc on the future financial position of the Group in respect of their going concern basis of preparation. The Group has agreed committed financing arrangements to fund the acquisition and has prepared forecasts which show that the enlarged Group is expected to operate within the agreed borrowing facilities throughout the period under consideration for going concern. 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 29 September 2019. 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 New standards, interpretations and amendments to existing standards

The following new standards, interpretation and amendments to standards are mandatory for the Group for the first time for their annual reporting period commencing 1 October 2018.

Those standards and interpretation include:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognition and measurement of financial instruments, including impairment, derecognition and general hedge accounting.

This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The Group adopted IFRS 9 on 1 October 2018 prospectively hence the information presented for comparative periods has not been restated and is presented, as previously reported, under IAS 39. Additional disclosure requirements have been adopted to the year ending 29 September 2019 as shown in note 19.

Classification and measurement

The adoption of IFRS 9 has had no material impact on the measurement of financial assets and financial liabilities. The Group's financial assets and trade and other receivables, both previously classified as loan and receivables carried at amortised cost under IAS 39, continue to be carried at amortised cost under IFRS 9.

The Group's business model is to hold these assets for collection of contractual cash flow, and the cash flows represent solely payments of principal and interest on the principal amount.

There are no changes to the classification and measurement for the Group's financial liabilities.

Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss (ECL) model. The new impairment model applies to the Group's financial assets that are held at amortised cost.

The Group has determined that the application of IFRS 9's impairment requirement as at 1 October 2018 has not resulted in an additional allowance for impairment and given the minimal impact on retained earnings no restatement was required.

IFRS 15 Revenue from Contracts with Customers

With effect from 1 October 2018, the Group has adopted IFRS 15 Revenue from Contracts with Customers using the modified retrospective approach, without practical expedients.

1 Accounting policies (Continued)

1.4 New standards, interpretations and amendments to existing standards (Continued)

Under this method of adoption, the comparative period as reported under the previous standard is not restated, with the cumulative effect of initially applying IFRS 15 recognised as an adjustment to the opening balances of retained earnings as at the date of initial application.

The Group has undertaken a review of its revenue streams under the new standard and has concluded that a large proportion of the revenue is recognised at the point of sale, when the goods or services are provided in their entirety to the customer in return for cash.

Based on the Group's review, it has concluded that IFRS 15 does not have a material impact on the recognition of revenue, consequently not having a material impact on the consolidated results and financial position.

Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements. The Group has the following updates to information provided in the last annual financial statements about the standards issued but not yet effective that may have a significant impact on the Group's consolidated financial statements.

IFRS 16 Leases

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted.

IFRS 16 introduces a single, on-balance sheet lease accounting model for leases. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases (lease term of 12 months or less) and leases of low-value items. The expense for these items will be recognised on a straight-line basis as permitted by IFRS 16.

Lessor accounting remains similar to the current standard, whereby the lessor continues to classify leases as finance or operating leases.

Transition

As a lessee, the Group can either apply the standard using the full retrospective approach, retrospectively to each prior reporting period presented, or the modified retrospective approach, with the cumulative effect of initially applying IFRS 16 recognised as an adjustment to the opening balance of retained earnings at the date of the initial application, with no restatement of the comparative information.

The Group has applied IFRS 16 on 30 September 2019, using the modified retrospective approach, with assets equal to liabilities. This approach will not require restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the Group can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition.

The Group has elected to adopt the following practical expedients on transition to IFRS 16:

- not to reassess contracts to determine if the contract contains a lease and not to separate lease and non-lease elements;
- where an onerous lease provision is in existence, to utilise this provision to reduce the right-of-use asset value rather than undertaking an impairment review;
- to exclude initial direct costs from the measurement of the right-of-use asset;
- to apply the portfolio approach where a group of leases has similar characteristics; and
- to use hindsight in determining the lease term.

1 Accounting policies (Continued)

1.4 New standards, interpretations and amendments to existing standards (Continued)

Impact of adoption of IFRS 16 Leases

Balance sheet

As at 29 September 2019, as set out in note 22, the Group's future minimum lease payments under non-cancellable operating leases were estimated at £793,126,000, on an undiscounted basis. On 30 September 2019 the Group will recognise a right-of-use lease asset of £692,555,000 (after adjustments for intangible assets, onerous lease provisions, lease prepayments and accrued lease expenses at 29 September 2019) and a corresponding lease liability of £544,942,000 (non-current £519,898,000; current £25,044,000).

Operating lease intangibles of £149,540,000; lease incentives of £4,802,000 and lease prepayments of £9,638,000 previously recognised in respect of the operating leases will be derecognised and the amount factored into the measurement of the right-of-use asset on transition to IFRS 16.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts. The Group will apply the practical expedient to rely on its assessment of onerous lease contracts under IAS 37 as an alternative to performing an impairment review at the transition date. The right of use asset will be adjusted for the value of the onerous lease provision immediately before the transition date. The onerous lease provision at 29 September 2019 is £9,814,000. An amount of £6,763,000 will be recognised as impairment as transition, with an amount of £466,000 recognised in opening retained earnings, representing the excess onerous lease provision as a result of different discount rates being used for the onerous lease provision compared to lease liabilities under IFRS 16. The remaining provision of £2,585,000 will continue to be held as a provision as it relates to non-rental elements of onerous lease provisions.

No significant impact is expected for the Group's finance leases.

Income statement

Under IFRS 16 the Group will see a different pattern of expense within the income statement, as the IAS 17 operating lease expense is replaced by depreciation and interest charges.

For the 52 weeks ending 27 September 2020, the Group's trading profit metric will improve by an estimated £17,661,000 under IFRS 16 as the new depreciation expense is expected to be lower than the IAS 17 operating lease charge; however net finance costs are expected to be higher than this, estimated at £28,343,000, such that net profit after tax and the underlying earnings metric are expected to be materially lower compared to the previous IAS 17 reporting basis.

For the short-term leases, of 12 months or less, and leases of low-value assets, the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

The expenses attributable to these leases will continue to be recognised in the income statement as operating lease expenses.

Tax impact on changes to the income statement

The Group will follow the accounting treatment and deduct depreciation and interest expense when calculating current tax. The tax deductions are not expected to be materially different compared to the previous IAS 17 reporting basis.

Cash flow statement

There is no net cash flow impact on application of IFRS 16, although the classification of cash flows will be affected as operating lease payments under IAS 17 are presented as operating cash flows, whereas under IFRS 16, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows, respectively. The change in presentation as a result of the adoption of IFRS 16 will see an improvement in the period ending 27 September 2020 of an estimated £28,343,000 in cash flow generated from operating activities, offset by a corresponding decline in cash flow from financing activities.

1 Accounting policies (Continued)

1.4 New standards, interpretations and amendments to existing standards (Continued)

Impact on consolidated balance sheet at 30 September 2019

The following table shows the estimated effect of adopting IFRS 16 on the consolidated balance sheet at 30 September 2019.

	As reported at 29 September 2019	Impact of IFRS 16	As at 30 September 2019
	£000	£000	£000
Assets			
Non-current assets			
Property, plant and equipment	550,437	—	550,437
Brand	4,664	—	4,664
Right-of-use assets	—	692,555	692,555
Operating leases	149,540	(149,540)	—
Goodwill	141,890	—	141,890
Trade and other receivables	5,847	—	5,847
Retirement benefit surplus	1,030	—	1,030
	853,408	543,015	1,396,423
Current assets			
Inventories	13,224	—	13,224
Trade and other receivables	38,876	(9,638)	29,238
Cash and cash equivalents	22,351	—	22,351
	74,451	(9,638)	64,813
Total assets	927,859	533,377	1,461,236
Liabilities			
Current liabilities			
Trade and other payables	(140,342)	4,802	(135,540)
Lease liabilities	—	(25,044)	(25,044)
Borrowings	(17,112)	—	(17,112)
	(157,454)	(20,242)	(177,696)
Non-current liabilities			
Borrowings	(738,882)	—	(738,882)
Lease liabilities	—	(519,898)	(519,898)
Deferred tax liabilities	(21,134)	—	(21,134)
Retirement benefit obligations	(7,700)	—	(7,700)
Provisions	(13,512)	7,229	(6,283)
	(781,228)	(512,669)	(1,293,897)
Total liabilities	(938,682)	(532,911)	(1,471,593)
Net (liabilities) / assets	(10,823)	466	(10,357)
Equity			
Called up share capital	1,736	—	1,736
Share premium	97,047	—	97,047
Retained earnings	(109,606)	466	(109,140)
Total (deficit) / equity attributable to owners of the parent company	(10,823)	466	(10,357)

The weighted average incremental borrowing rate applied to lease liabilities was 5.26%.

1 Accounting policies (Continued)

1.4 New standards, interpretations and amendments to existing standards (Continued)

Reconciliation between operating lease commitments and lease liability

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

	£000
Total minimum lease payments reported at 29 September 2019 under IAS 17 (note 22)	793,126
Change in assessment of lease term under IFRS 16	56,179
Impact of discounting lease liability under IFRS 16	(304,363)
Lease liability recognised on transition to IFRS 16 at 30 September 2019	544,942

1.5 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.

1.6 Non-derivative financial instruments

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

Trade and other receivables

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

Trade and other payables

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

Cash and cash equivalents

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

Interest-bearing borrowings

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

1.7 Derivative financial instruments and hedging

Derivative financial instruments

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

1 Accounting policies (Continued)

1.8 Property, plant and equipment

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

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

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

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

The Group capitalises employment costs and related personal expenses of individuals whose job roles are fundamentally associated with managing or implementing the Group's capital development programme.

Judgement is therefore applied in determining the element of internal labour costs which are directly attributable to capital projects. Where such an individual undertakes non-capital expenditure related activities as part of their job roles then a proportion of their cost is not capitalised unless the non-capital expenditure related activities are incidental to their role.

1.9 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.

1.10 Business combinations

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

Acquisitions post transition date

For acquisitions on or after 26 September 2011, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquire, if any; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

1.11 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.

1 Accounting policies (Continued)

1.11 Intangible assets and goodwill (Continued)

Operating lease intangible assets

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

Brand

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

1.12 Inventories

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

1.13 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

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

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

Non-financial assets

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

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

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

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

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

1 Accounting policies (Continued)

1.13 Impairment excluding inventories and deferred tax assets (Continued)

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.

1.14 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.

1.15 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.

1 Accounting policies (Continued)

1.15 Provisions (Continued)

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.

1.16 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 to the extent that it is probable that the economic benefits will flow to the Group and is measured at the fair value of consideration receivable, excluding discounts, rebates, and other sales taxes or duty.

The Group has initially applied IFRS 15 from 1 October 2018, as described in note 1.4.

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

Drink and food

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

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

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

Other services

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

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

1.17 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.

Finance leases

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

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

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

1 Accounting policies (Continued)

1.17 Expenses (Continued)

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.

1.18 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.

1.19 Exceptional items

The Group presents separately on the face of the income statement those material items of income and expense which are outside of the normal course of trading, which management consider will distort comparability, in order to provide a trend measure of underlying performance. These costs are discussed further in note 7.

1.20 Key accounting judgements and estimates

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

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

Key accounting judgements

The following are the key judgements, apart from those involving estimations, dealt with separately below, that management have made in the process of applying the Group's accounting policies and which have the most significant effect on the amounts recognised in the financial statements.

Exceptional items

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

1 Accounting policies (Continued)

1.20 Key accounting judgements and estimates (Continued)

Key areas of estimation

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

Impairment of property, plant, equipment and operating leases

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

Onerous lease provisions

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

Defined pension benefit schemes

The present value of defined benefit pension scheme liabilities are determined on an actuarial basis and depend on a number of actuarial assumptions, which are disclosed in note 24. Any changes in these assumptions could impact the carrying amounts of retirement benefit assets / liabilities.

Business combinations

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

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

1.21 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.

2 Revenue

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

	2019 52 weeks £000	2018 53 weeks £000
Sales of food, beverages, admissions, hotel rooms and machine income	**852,791**	774,390

3 Expenses

Included in operating profit are the following expenses:

	2019 52 weeks £000	2018 53 weeks £000
Drink and food costs	**212,385**	204,409
Employment costs	**245,301**	205,033
Operating lease rentals	**61,122**	52,417
Other costs	**233,567**	214,039
Depreciation, amortisation and impairment	**78,579**	61,421
Loss on disposal of non-current assets	**2,874**	7,214
Costs deducted from revenue to determine operating profit	**833,828**	744,533

3 Expenses (Continued)

Included within operating profit are £30,188,000 of costs (2018: £11,018,000) relating to exceptional items (see note 7).

4 Employees

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

	2019 52 weeks	2018 53 weeks
Head office administration[1]	**431**	376
Retail[1]	**13,988**	13,111
	14,419	13,487

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

At the period end the Group had 14,961 employees (2018: 13,848 employees).

The aggregate payroll costs of these persons were as follows:

	2019 52 weeks £000	2018 53 weeks £000
Wages and salaries	**226,001**	190,141
Social security costs	**16,567**	13,189
Pension costs	**2,733**	1,703
	245,301	205,033

5 Finance income

	2019 52 weeks £000	2018 53 weeks £000
Other interest receivable	**130**	80
Total finance income	**130**	80

6 Finance costs

	2019 52 weeks £000	2018 53 weeks £000
Interest payable on loan notes	**36,590**	29,556
Other interest payable	**2,480**	1,987
Net pensions finance charge (note 23)	**59**	219
Debt issue costs amortisation	**3,693**	1,947
Refinancing costs	**270**	191
Unwinding of discount element of provisions	**266**	235
Non-utilisation and commitment fees	**355**	283
Total finance costs	**43,713**	34,418

Included within finance costs are £864,000 of costs (2018: £64,000) relating to exceptional items (see note 7).

7 Exceptional items

	2019 52 weeks £000	2018 53 weeks £000
Operating exceptional items		
Acquisition costs	**3,333**	4,439
Integration costs	**5,528**	1,696
Restructuring costs	**173**	2,306
Discretionary exit bonus	**15,683**	—
Impairment of property, plant and equipment (note 11)	**4,226**	2,684
Impairment of operating leases (note 11)	**1,069**	31
Onerous lease provision	**1,969**	8,096
Onerous lease reversal	**(1,793)**	(8,234)
	30,188	11,018
Finance costs	**864**	64
UK income tax charge relating to exceptional items	**4,093**	1,034
Total exceptional items	**35,145**	12,116

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

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

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

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

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

Finance costs: In the current period these costs relate to the repayment of the bridging finance facility and the fees associated with the facility. In the prior period these costs relate to the short term increase in the Group's revolving credit facility.

8 Taxation

	2019 52 weeks £000	2018 53 weeks £000
Tax charged in the income statement		
Current tax:		
—UK corporation tax	**—**	1,701
—Adjustments in respect of previous periods	**(232)**	—
Total current tax (credit) / charge	**(232)**	1,701
Deferred tax (note 14):		
—Origination and reversal of temporary differences	**(686)**	1,632
—Adjustments in respect of previous periods	**(168)**	(8)
—Rate change	**35**	(293)
Total deferred tax (credit) / charge	**(819)**	1,331
Total current and deferred tax (credited) / charged in the income statement	**(1,051)**	3,032

8 Taxation (Continued)

	2019 52 weeks £000	2018 53 weeks £000
Tax credited in other comprehensive income		
Deferred tax:		
—Re-measurement of defined benefit pension schemes	**(964)**	561
Total tax (credit) / charge recognised in other comprehensive income	**(964)**	561

Reconciliation of total tax charge

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

	2019 52 weeks £000	2018 53 weeks £000
Loss before tax	**(24,620)**	(4,481)
Tax at current UK corporation tax rate of 19% (2018: 19%)	**(4,678)**	(851)
Expenses not deductible for tax purposes	**4,020**	4,365
Impact of rate change	**35**	(293)
Adjustment in respect of previous periods	**(400)**	(8)
Deferred tax not recognised	**(28)**	(181)
Total tax (credited) / charged in the income statement	**(1,051)**	3,032

9 Property, plant and equipment

	Land and buildings £000	Leasehold improvements £000	Furniture, fixtures and equipment £000	Total £000
Cost				
At 24 September 2017	329,725	113,552	226,523	669,800
Acquisitions through business combinations	760	—	1,490	2,250
Additions	6,253	14,925	50,049	71,227
Disposals	(6,200)	(1,449)	(13,581)	(21,230)
Fully depreciated assets	(7)	(406)	(20,631)	(21,044)
At 30 September 2018	330,531	126,622	243,850	701,003
Acquisitions through business combinations	—	—	730	730
Additions	6,512	18,597	58,398	83,507
Disposals	(1,860)	(953)	(6,957)	(9,770)
Fully depreciated assets	(414)	(1,954)	(19,001)	(21,369)
At 29 September 2019	**334,769**	**142,312**	**277,020**	**754,101**
Depreciation				
At 24 September 2017	(9,119)	(34,459)	(105,306)	(148,884)
Charge for the year	(1,403)	(9,046)	(39,548)	(49,997)
Impairment (note 11)	—	(1,753)	(931)	(2,684)
Disposals	938	1,206	8,404	10,548
Fully depreciated assets	7	406	20,631	21,044
At 30 September 2018	(9,577)	(43,646)	(116,750)	(169,973)
Charge for the year	(1,580)	(9,896)	(44,821)	(56,297)
Impairment (note 11)	(1,864)	(1,416)	(946)	(4,226)
Disposals	191	729	4,543	5,463
Fully depreciated assets	414	1,954	19,001	21,369
At 29 September 2019	**(12,416)**	**(52,275)**	**(138,973)**	**(203,664)**

9 Property, plant and equipment (Continued)

	Land and buildings	Leasehold improvements	Furniture, fixtures and equipment	Total
	£000	£000	£000	£000
Net book value				
At 29 September 2019	**322,353**	**90,037**	**138,047**	**550,437**
At 30 September 2018	320,954	82,976	127,100	531,030
At 24 September 2017	320,606	79,093	121,217	520,916

During the current period the Group acquired £730,000 of property, plant and equipment through business combinations (2018: £2,250,000). See note 12 for details of these acquisitions.

Included in property, plant and equipment are properties with a net book value of £312,379,000 (2018: £312,610,000) over which the Group's borrowings are secured by way of fixed and floating charges.

Land and buildings includes £11,978,000 (2018: £11,978,000) relating to long leasehold sites; £190,449,000 of freehold land (2018: £192,324,000) and £119,926,000 of freehold properties (2018: £116,652,000).

10 Goodwill, operating leases and brand intangible assets

	Brand	Operating leases	Goodwill
	£000	£000	£000
Cost			
At 24 September 2017	2,000	96,453	117,951
Acquisitions through business combinations	3,728	51,299	12,075
Disposals	—	(2,597)	(1,242)
Fully depreciated assets	—	(156)	—
At 30 September 2018	5,728	144,999	128,784
Acquisitions through business combinations	—	47,361	17,180
Disposals	—	(250)	(264)
Fully depreciated assets	—	(250)	—
At 29 September 2019	**5,728**	**191,860**	**145,700**
Amortisation			
At 24 September 2017	(190)	(17,784)	(3,810)
Charge for the year	(301)	(8,408)	—
Impairment (note 11)	—	(31)	—
Disposals	—	797	—
Fully depreciated assets	—	156	—
At 30 September 2018	(491)	(25,270)	(3,810)
Charge for the year	(573)	(16,414)	—
Impairment (note 11)	—	(1,069)	—
Disposals	—	183	—
Fully depreciated assets	—	250	—
At 29 September 2019	**(1,064)**	**(42,320)**	**(3,810)**
Net book value			
At 29 September 2019	**4,664**	**149,540**	**141,890**
At 30 September 2018	5,237	119,729	124,974
At 24 September 2017	1,810	78,669	114,141

During the current period the Group acquired £47,361,000 of operating leases and £17,180,000 of goodwill as a result of business combinations. In the prior period the Group acquired £3,728,000 of brand; £51,299,000 of operating leases and £12,075,000 of goodwill. See note 12 for details of these acquisitions.

11 Impairment losses

Property, plant and equipment and operating lease intangible assets

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

The value in use is determined using the present value of the expected cash flows attributable to that site using a pre-tax discount rate of 8.15% (2018: 8.42%) 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 are extrapolated using a 2.5% growth rate for five years, after which a nil percentage growth rate is applied into perpetuity.

Where a reliable estimate of the fair value less costs of sale is available and is higher than the carrying amount of the asset, the asset is not impaired.

Indicators of impairment were found in each of the periods ended 29 September 2019 and 30 September 2018 on a small number of individual CGUs and consequently impairment reviews were carried out on the affected CGUs. Impairments totalling £5,295,000 (2018: £2,715,000) were identified.

The Group's estimate of impairments is relatively insensitive to movements in assumptions. For those pubs where an indication of impairment was present and which led to an impairment being recognised, no greater level of impairment could have been recorded. A 10% increase in revenue in each pub would not have led to a reduction in the impairment recorded. For those pubs where an indication of impairment was present but which led to no impairment being recorded, there are no reasonably possible changes in assumptions which would have led to an impairment being recognised. For a small number of pubs the recoverable amount has been calculated by reference to their fair value less cost to sell. In calculating this value, the Group's property specialists have determined an estimated market value based on their knowledge of the market place or indicative offers received.

Goodwill

Goodwill acquired via business combinations is tested annually for impairment. For this purpose, the goodwill is allocated to the 763 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 8.15% (2018: 8.42%). 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 are extrapolated using a 2.5% growth rate for five years, after which a nil percentage growth rate is applied into perpetuity.

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

12 Acquisitions and disposals

Acquisitions in the current period

Bar Fever Limited

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

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

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

	Fair value £000
Operating leases	21,854
Property, plant and equipment	290
Inventory	253
Cash	3,407
Trade and other receivables	994
Trade and other payables	(3,434)
Deferred tax	(4,104)
Net assets acquired	19,260
Purchase price satisfied by:	
Cash consideration	26,894
Goodwill	**7,634**

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

The Group incurred acquisition-related costs of £652,000 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).

Operating leases: The fair value of lease premiums was derived through a fair value exercise, taking into accounts earnings (profit) and the geographical locations across the UK, and increases the book value by £21,854,000.

Property, plant and equipment: Included in property, plant and equipment are fixtures and fittings with a valuation of £290,000.

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

Post-acquisition to 29 September 2019 Bar Fever Limited contributed £19,030,000 in revenue and £552,000 in profit before tax. If the acquisition of Bar Fever Limited had taken place at the start of the financial period the Group's consolidated revenue would have been £863,814,000 and its consolidated loss before tax would have been £20,715,000.

12 Acquisitions and disposals (Continued)

Novus Limited

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

	Fair value
	£000
Operating leases	20,954
Property, plant and equipment	234
Inventory	286
Cash	80
Trade and other receivables	551
Trade and other payables	(1,849)
Deferred tax	(3,602)
Net assets acquired	16,654
Purchase price satisfied by:	
Cash consideration	24,987
Goodwill	**8,333**

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

The Group incurred acquisition-related costs of £965,000 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).

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

Property, plant and equipment: Included in property, plant and equipment are fixtures and fittings with a valuation of £234,000.

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

Post-acquisition to 29 September 2019 these sites contributed £21,473,000 in revenue and £397,000 in loss before tax. If the sites had been acquired at the start of the financial period the Group's consolidated revenue would have been £866,212,000 and its consolidated loss before tax would have been £24,244,000.

Balls Brothers (Emporium) Limited and Tank and Paddle Limited

On 22 January 2019, Stonegate Pub Company acquired 6 sites from Balls Brothers (Emporium) Limited and Tank and Paddle Limited, all of which are in prime locations in London for cash consideration of £5,343,000. A summary of the fair value of the assets and liabilities are given in the table below:

	Fair value
	£000
Operating leases	4,553
Property, plant and equipment	448
Inventory	108
Cash	16
Trade and other receivables	277
Trade and other payables	(57)
Deferred tax	(850)
Net assets acquired	4,495
Purchase price satisfied by:	
Cash consideration	5,343
Goodwill	**848**

12 Acquisitions and disposals (Continued)

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

The Group incurred acquisition-related costs of £470,000 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).

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

Property, plant and equipment: Included in property, plant and equipment are fixtures and fittings with a valuation of £448,000.

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

Post-acquisition to 29 September 2019 these sites contributed £3,522,000 in revenue and £281,000 in loss before tax. If the sites had been acquired at the start of the financial period the Group's consolidated revenue would have been £854,992,000 and its consolidated loss before tax would have been £24,172,000.

Total payments for business acquisitions were £57,347,000.

Acquisitions in the prior period

Be At One Holdings Limited

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

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

Goodwill is considered to represent the value of the acquired specialist cocktail-makers workforce and synergies benefits that will be gained from combining these sites with the Group's existing portfolio of brands and sites. The Group incurred acquisition-related costs of £1,821,000 related to stamp duty and external legal and professional fees. These costs have been included in 'operating exceptional costs' in the consolidated income statement (see note 7).

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

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

12 Acquisitions and disposals (Continued)

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

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

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

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

Novus Limited

On 23 July 2018, Stonegate Pub Company Limited exchanged on 15 sites from A3D2 Limited, trading as Novus, all of which are prime locations in London. By year end, 4 of the Novus leases had been assigned, with the remaining 11 assigned by December 2018 for cash consideration of £25,352,000. The acquisition was funded by a bridging loan of £14,849,000, charging an annual interest rate of 3 months LIBOR + 5% which was repaid as part of the financing in early 2019.

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

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

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

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

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

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

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

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

Other acquisitions in the prior period

During the prior period the Group also acquired three additional sites, one being a freehold and two leasehold sites. Payments for these sites were £910,000. Payments of £2,200,000 were made to exit two leasehold sites from tied leases with Ei Group plc. Additionally, a payment of £2,715,000 was made to

12 Acquisitions and disposals (Continued)

assign a leasehold site from the Administrator of the Tattershall Castle Group, being £1,400,000 of operating lease and £1,315,000 of goodwill. During the period a further consideration of £304,000 was paid for the acquisition of Bar Holdings Limited and is included in Goodwill additions.

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

Disposals in the current period

During the period the Group disposed of eleven sites to third parties for consideration of £2,989,000, with associated costs of sale and closure costs of £1,225,000. Property, plant and equipment and operating leases with net book values of £2,513,000 and goodwill with net book values of £264,000 were disposed. Loss on disposal was £1,013,000.

During the period the Group also wrote off property, plant and equipment with net book values of £1,861,000 relating to sites developed during the period.

Total loss on disposal for the period was £2,874,000.

Disposals in the prior period

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

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

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

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
Hull Propco Limited	England and Wales	Ordinary	100%	Property company
Large Bars Limited	England and Wales	Ordinary	100%	Operation of licensed bars
Falcon Propco 1 Limited	England and Wales	Ordinary	100%	Property company
Town and City Pub Group Limited*	England and Wales	Ordinary	100%	Holding company
Barley Pub Company Limited*	England and Wales	Ordinary	100%	Operation of licensed bars
Hops Pub Company Limited*	England and Wales	Ordinary	100%	Operation of licensed bars
Plato Restaurant Holdings Limited*	Cayman Islands	Ordinary	100%	Holding company
Bay Restaurant Holdings Limited*	Cayman Islands	Ordinary	100%	Holding company
Bay Restaurant Group Limited*	England and Wales	Ordinary	100%	Holding company
Slug and Lettuce Company Limited*	England and Wales	Ordinary	100%	Operation of licensed bars
Yates Group Pension Trustees Limited*^	England and Wales	Ordinary	100%	Dormant
Laurel Pension Trustee Company Limited*^	England and Wales	Ordinary	100%	Dormant
Intertain Limited	England and Wales	Ordinary	100%	Holding company

13 Investments in subsidiaries (Continued)

Name of company	Country of incorporation	Class of shares held	Proportion held	Nature of business
Intertain (Bars) Limited*	England and Wales	Ordinary	100%	Operation of licensed bars
Intertain (Bars) II Limited*	England and Wales	Ordinary	100%	Operation of licensed bars
Intertain (Bars) III Limited*	England and Wales	Ordinary	100%	Operation of licensed bars
Intertain (Bars) IV Limited*	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Holdings Limited	England and Wales	Ordinary	100%	Operation of licensed bars
Sports Bar And Grill (Canary Wharf) Limited*	England and Wales	Ordinary	100%	Operation of licensed bars
Sports Bar And Grill Farringdon Limited*	England and Wales	Ordinary	100%	Operation of licensed bars
Sports Bar And Grill St Katherine Dock Limited*^	England and Wales	Ordinary	100%	Dormant
Sports Bar And Grill Victoria Limited*	England and Wales	Ordinary	100%	Operation of licensed bars
Sports Bar And Grill Waterloo Limited*	England and Wales	Ordinary	100%	Operation of licensed bars
Sports Bar And Grill (Piccadilly Circus) Limited*	England and Wales	Ordinary	100%	Operation of licensed bars
Sports Grill to Go Limited*^	England and Wales	Ordinary	100%	Dormant
Be At One Holdings Limited	England and Wales	Ordinary	100%	Holding company
Be At One Limited*	England and Wales	Ordinary	100%	Operation of licensed bars
Stonegate Pub Company Bidco Holdings Limited	England and Wales	Ordinary	100%	Operation of licensed bars
Stonegate Pub Company Bidco Limited*	England and Wales	Ordinary	100%	Operation of licensed bars
Stonegate Pub Company Financing 2019 plc*	England and Wales	Ordinary	100%	Financing
Bar Fever Limited	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Aylesbury) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Banbury) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Barnstaple) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Basingstoke) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Blackpool) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Burton) Limited*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Cannock) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Cheltenham) Limited*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Derby) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Epsom) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Exeter) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Exmouth) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Fleet) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Be Live 345 Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Gloucester) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Isle of Wight) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Lincoln) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars

13 Investments in subsidiaries (Continued)

Name of company	Country of incorporation	Class of shares held	Proportion held	Nature of business
Barclub (Lincoln) Limited*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Macclesfield) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Macclesfield No. 2) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Maidstone) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Nuneaton) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Nuneaton No. 2) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Oxford) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Plymouth) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Reading) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Redditch) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Shrewsbury) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Southend) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Taunton) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Trowbridge) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Tunbridge Wells) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Weston-Super-Mare) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Kukui Bars (Newbury) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Bierkeller Cheltenham Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Retro Leisure (Rugby) Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Zinc Taunton Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Chilli Whites Epsom Ltd*#	England and Wales	Ordinary	100%	Operation of licensed bars
Element Thirty Limited*#	England and Wales	Ordinary	100%	Operation of licensed bars
South East Clubs Limited*#	England and Wales	Ordinary	100%	Operation of licensed bars

* Held indirectly

\# Companies denoted here are wholly owned by Bar Fever Limited and the subsidiaries are exempt from the requirements relating to the audit of the accounts under section 479A of the Companies Act 2006.

^ Companies denoted here are dormant subsidiaries which are exempt from the requirements relating to the audit of the accounts under section 480 of the Companies Act 2006.

14 Deferred tax assets and liabilities

Movement in deferred tax during the period is as follows:

	29 September 2019	30 September 2018
	£000	£000
At beginning of period	**(14,383)**	(6,040)
Credited / (charged) to income statement	**819**	(1,331)
Credited / (charged) to equity	**964**	(561)
Acquisitions	**(8,534)**	(6,451)
At end of period	**(21,134)**	(14,383)

14 Deferred tax assets and liabilities (Continued)

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

Deferred tax assets

	Tax losses	Retirement benefit liabilities	Temporary differences	Total
	£000	£000	£000	£000
At 24 September 2017	4,101	1,606	554	6,261
Charged to income statement	(3,599)	(71)	(523)	(4,193)
Recognised in other comprehensive income	—	(561)	—	(561)
At 30 September 2018	502	974	31	1,507
Credited / (charged) to income statement	130	(628)	—	(498)
Recognised in other comprehensive income	—	964	—	964
At 29 September 2019	**632**	**1,310**	**31**	**1,973**

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

Deferred tax liabilities

	Retirement benefit liabilities	Intangibles	Property, plant and equipment	Total
	£000	£000	£000	£000
At 24 September 2017	—	2,836	9,465	12,301
Charged / (credited) to income statement	155	466	(3,483)	(2,862)
Recognised in goodwill	—	—	6,451	6,451
At 30 September 2018	155	3,302	12,433	15,890
Charged / (credited) to income statement	20	(35)	(1,302)	(1,317)
Recognised as part of business combinations	—	—	8,534	8,534
At 29 September 2019	**175**	**3,267**	**19,665**	**23,107**

At the period end the Group had a net deferred tax liability of £21,134,000 (2018: liability of £14,383,000) and an unrecognised deferred tax asset of £862,000 (2018: £890,000) relating to unutilised losses in Intertain Limited.

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax liability at 29 September 2019 has been calculated based on these rates.

In prior periods the Group disclosed a contingent liability in respect of Intertain (Bars) Limited's dispute with HMRC over its valuation methodology on acquisition of properties in 2009. During the period this was resolved with £nil impact to tax losses or cash outflow.

15 Inventories

	29 September 2019	30 September 2018
	£000	£000
Goods held for resale	**13,224**	12,410
	13,224	12,410

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

15 Inventories (Continued)

The Group consumed £212,385,000 of inventories during the period (2018: £204,409,000) and charged £Nil to the income statement for the write-down of inventories during the period (2018: £Nil).

16 Trade and other receivables

	29 September 2019	30 September 2018
	£000	£000
Trade receivables	**7,031**	4,359
Amounts due from group undertakings	**5,933**	337
Other receivables	**9,603**	8,830
Prepayments and accrued income	**22,156**	17,135
	44,723	30,661

Included within amounts due from group undertakings is £5,847,000 (2018: £Nil) expected to be recovered in more than 12 months. This relates to a loan provided on 4 April 2019 to Stonegate Pub Company Holdings Limited, the ultimate parent company, a company incorporated in the Cayman Islands. The loan in repayable on 4 April 2022 and charging annual interest of LIBOR +2.50%.

There is also an amount of £86,000 owing from TDR Capital LLP (2018: £37,000), see note 25. In the prior period there was an amount of £300,000 owing from Stonegate Pub Company Group S.a.r.l, a company incorporated in Luxembourg, which was repaid during the period.

The effect of initially applying IFRS 15 and IFRS 9 is described in note 1.4.

17 Trade and other payables

	29 September 2019	30 September 2018
	£000	£000
Trade payables	**65,560**	54,607
Amounts due to group undertakings	**1,789**	2,557
Other taxation and social security	**20,215**	14,682
Corporation tax payable	**66**	1,701
Other payables	**17,536**	17,613
Accruals	**35,176**	28,707
	140,342	119,867

There is an amount of £1,789,000 (2018: £2,557,000) owing to Stonegate Pub Company Midco Limited, the immediate parent company, at 29 September 2019. See note 25.

18 Borrowings

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

	29 September 2019	30 September 2018
	£000	£000
Current liabilities		
Bank overdrafts	**13,825**	10,903
Revolving credit facility	**3,000**	25,000
Bank loans	**—**	67,916
Obligations under finance leases	**287**	—
	17,112	103,819
Non-current liabilities		
Secured loan notes issued by Stonegate Pub Company Financing plc	**738,882**	591,009
	738,882	591,009

18 Borrowings (Continued)

Current liabilities include £3,000,000 (2018: £25,000,000) drawn down from the Group's revolving credit facility and charged annual interest of 3 month LIBOR +3% and is repayable on demand.

In the prior period current liabilities also included £69,268,000 of bridging loans in relation to the purchase of Be At One and the Novus sites, see note 12, and are shown net of debt issue costs of £1,352,000. The bridging loan facility was repaid as part of the refinancing on 30 January 2019.

Non-current secured loan notes are shown net of debt issue costs of £5,525,000 (2018: £3,991,000) and a discount accrual of £157,000.

Terms and debt repayment schedule:

	Principal borrowed	Year of maturity	Principal outstanding 29 September 2019	Principal outstanding 30 September 2018
	£000		£000	£000
Secured fixed notes	405,000	2022	**405,000**	405,000
Secured floating notes	340,000	2022	**340,000**	190,000
			745,000	595,000

On 16 March 2017, Stonegate Pub Company Financing plc, a public limited company incorporated under the laws of England and Wales and a wholly owned subsidiary of Stonegate Pub Company Limited, received £595,000,000 from the issue of £405,000,000 fixed loan notes charging an annual interest rate of 4.875% and £190,000,000 floating loan notes charging an annual interest rate of 3 months LIBOR + 4.375%.

On 30 January 2019, Stonegate Pub Company Financing plc received £149,250,000 from the issue of £150,000,000 discounted floating loan notes charging an annual interest rate of 3 months LIBOR +6.25%.

The notes will mature on 15 March 2022 and are listed on the Channel Islands stock exchange. Amortised debt issue costs of £5,525,000 offset the loan balance at the period end and a discount accrual of £157,000.

The proceeds from the issue of the loan notes on 30 January 2019 were used to repay the bridging finance facility that was used to finance the acquisitions of Be At One Holdings Limited, Bar Fever Limited, certain pubs acquired from A3D2 Limited, Balls Brothers (Emporium) Limited and Tank and Paddle Limited, to finance capital expenditure in relation to these acquisitions and to pay fees in connection with the transactions.

Obligations under finance leases

Upon acquisition of Bar Fever Limited on 22 January 2019, the Group acquired leases of property, plant and equipment where it substantially has all the risks and rewards of ownership, which have been classified as finance leases. In the balance sheet a corresponding liability has been included as finance lease obligation.

The minimum lease payments under finance leases was £287,000 at 29 September 2019. These were repaid in full shortly after the period end.

19 Financial instruments

Fair values of financial instruments

Set out in the table below are the carrying values and fair values of all of the Group's financial instruments at 29 September 2019 and 30 September 2018.

The following assumptions were used to estimate the fair values:

	Fair value		Carrying value	
	2019	2018	2019	2018
	£000	£000	£000	£000
Financial assets—loans and receivables				
Trade receivables	**7,031**	4,359	**7,031**	4,359
Other receivables	**9,603**	8,830	**9,603**	8,830
Amounts due from group undertakings	**5,933**	337	**5,933**	337
Cash and cash equivalents	**22,351**	26,454	**22,351**	26,454
	44,918	39,980	**44,918**	39,980
Financial liabilities				
Trade payables	**65,560**	54,607	**65,560**	54,607
Other payables	**17,536**	17,613	**17,536**	17,613
Amounts due to group undertakings	**1,789**	2,557	**1,789**	2,557
Secured fixed notes	**395,852**	399,140	**405,000**	405,000
Secured floating notes	**338,093**	187,769	**340,000**	190,000
Bank loans and overdrafts	**17,112**	105,171	**17,112**	105,171
	835,942	766,857	**846,997**	774,948

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

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

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

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

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

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

Fair value hierarchy

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

The classification uses the following three-level hierarchy:

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

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

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.

	Within 1 year	1 - 2 years	2 - 5 years	> 5 years	Total
	£000	£000	£000	£000	£000
At 29 September 2019					
Interest-bearing loans and borrowings					
—capital	**—**	**—**	**745,000**	**—**	**745,000**
—interest	**40,088**	**40,088**	**18,781**	**—**	**98,957**
Bank overdrafts	**13,825**	**—**	**—**	**—**	**13,825**
Revolving credit facility	**3,000**	**—**	**—**	**—**	**3,000**
Trade payables	**65,560**	**—**	**—**	**—**	**65,560**
Other payables	**17,536**	**—**	**—**	**—**	**17,536**
	140,009	**40,088**	**763,781**	**—**	**943,878**
	£000	£000	£000	£000	£000
At 30 September 2018					
Interest-bearing loans and borrowings					
—capital	69,268	—	595,000	—	664,268
—interest	30,247	28,946	43,559	—	102,752
Bank overdrafts	10,903	—	—	—	10,903
Revolving credit facility	25,000	—	—	—	25,000
Trade payables	54,607	—	—	—	54,607
Other payables	17,613	—	—	—	17,613
	207,638	28,946	638,559	—	875,143

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.

19 Financial instruments (Continued)

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:

	29 September 2019	30 September 2018
	£000	£000
Not past due	**19,763**	13,177
0 - 30 days past due	**2,257**	13
31 - 60 days past due	**134**	339
Greater than 60 days past due	**753**	218
	22,907	13,747

Trade receivables are shown gross of a provision of £340,000 (2018: £221,000). £131,000 was charged to the income statement during the period (2018: charged £19,000).

Impairment of financial assets

The Group has two types of financial assets that are subject to the expected credit loss model:

- Trade and other receivables
- Financial assets held at amortised cost

While cash and cash equivalents are also subject to the impairment requirement of IFRS 9, the identified impairment loss was immaterial. Impairment losses on financial assets and trade and other receivables recognised in profit or loss was £131,000.

20 Provisions

	Onerous leases	Health and safety claims	Total
	£000	£000	£000
At 24 September 2017	12,228	3,861	16,089
Additions	8,096	1,891	9,987
Additions through business combinations	230	—	230
Utilised	(678)	(1,100)	(1,778)
Released	(8,234)	—	(8,234)
At 30 September 2018	11,642	4,652	16,294
Additions	1,969	756	2,725
Utilised	(1,004)	(1,075)	(2,079)
Released	(2,793)	(635)	(3,428)
At 29 September 2019	**9,814**	**3,698**	**13,512**

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

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

21 Share capital

	29 September 2019	30 September 2018
	£000	£000
Called up, allotted and fully paid:		
173,600,000 ordinary shares of £0.01 each	**1,736**	1,685

During the period Stonegate Pub Company Limited issued 5,150,475 ordinary shares at an aggregate subscription price of £15,451,425 to its immediate parent company, Stonegate Pub Company Midco Limited.

Ordinary shares

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

Share premium

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

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:

	29 September 2019	30 September 2018
	£000	£000
Future minimum rentals payable under non-cancellable operating leases:		
Within one year	**60,244**	55,757
Between one and five years	**223,624**	210,947
After five years	**509,258**	516,786
	793,126	783,490

Capital commitments

Capital commitments for property, plant and equipment:

	29 September 2019	30 September 2018
	£000	£000
Contracted but not provided	**6,900**	14,360

23 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 £2,733,000 (2018: £1,703,000). At the period end the Group had outstanding contributions payable to the schemes of £5,000 (2018: £Nil).

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.

23 Employee benefits (Continued)

A full actuarial valuation for the Laurel Pub Pension scheme was carried out as at 28 February 2017. For the purposes of IAS19 the actuarial valuation as at 28 February 2017, which was carried out by a qualified independent actuary, has been updated on an approximate basis to 29 September 2019.

A full actuarial valuation for the Yates Group Pension scheme was carried out as at 28 February 2017. For the purposes of IAS19 the actuarial valuation as at 28 February 2017, which was carried out by a qualified independent actuary, has been updated on an approximate basis to 29 September 2019.

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:

	29 September 2019	30 September 2018
	£000	£000
Laurel Pub Pension scheme		
Fair value of plan assets	**88,611**	74,534
Present value of defined benefit obligation	**(92,840)**	(78,570)
Liability in the scheme	**(4,229)**	(4,036)
Effect of asset ceiling	**(3,471)**	—
Net retirement benefit liability recognised in the balance sheet	**(7,700)**	(4,036)
	£000	£000
Yates Group Pension scheme		
Fair value of plan assets	**14,268**	12,971
Present value of defined benefit obligation	**(13,238)**	(12,059)
Surplus in the scheme	**1,030**	912
Effect of asset ceiling	**—**	—
Net retirement benefit surplus recognised in the balance sheet	**1,030**	912
Total net retirement benefit recognised in the balance sheet	**(6,670)**	(3,124)

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

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

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

	29 September 2019	30 September 2018
	£000	£000
Laurel Pub Pension scheme		
Present value of scheme liabilities at beginning of period	**78,570**	83,698
Expenses	**74**	26
Interest cost	**2,234**	2,285
Actuarial losses / (gains)	**14,695**	(3,484)
Benefits paid	**(2,843)**	(3,955)
Past service costs	**110**	—
Present value of scheme liabilities at end of period	**92,840**	78,570

23 Employee benefits (Continued)

	£000	£000
Yates Group Pension scheme		
Present value of scheme liabilities at beginning of period	**12,059**	13,558
Expenses	**—**	—
Interest cost	**342**	357
Actuarial losses / (gains)	**1,283**	(241)
Benefits paid	**(556)**	(1,615)
Past service costs	**110**	—
Present value of scheme liabilities at end of period	**13,238**	12,059
Total present value of scheme liabilities at end of period	**106,078**	90,629

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

	29 September 2019 £000	30 September 2018 £000
Laurel Pub Pension scheme		
Fair value of scheme assets at beginning of period	**74,534**	73,485
Interest income	**2,150**	2,045
Return on plan assets excluding interest income	**12,295**	(311)
Contributions paid by employer	**2,475**	3,270
Benefits paid	**(2,843)**	(3,955)
Fair value of scheme assets at end of period	**88,611**	74,534

	£000	£000
Yates Group Pension scheme		
Fair value of scheme assets at beginning of period	**12,971**	14,322
Interest income	**367**	378
Return on plan assets excluding interest income	**1,486**	(114)
Contributions paid by employer	**—**	—
Benefits paid	**(556)**	(1,615)
Fair value of scheme assets at end of period	**14,268**	12,971
Total fair value of scheme assets at end of period	**102,879**	87,505

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:

	2019 52 weeks £000	2018 53 weeks £000
Laurel Pub Pension scheme		
Past service costs	**110**	—
Interest cost	**84**	240
Expenses	**74**	26
Net cost	**268**	266

	£000	£000
Yates Group Pension scheme		
Past service costs	**110**	—
Interest income	**(25)**	(21)
Expenses	**—**	—
Net income	**85**	(21)
Total net cost	**353**	245

23 Employee benefits (Continued)

Analysis of amounts recognised in the SOCI in the period:

	2019 52 weeks	2018 53 weeks
	£000	£000
Laurel Pub Pension scheme		
Return on plan assets excluding interest income	**12,295**	(311)
Experience gains	**(107)**	(1,081)
Effects of changes in demographic assumptions	**903**	768
Effects of changes in financial assumptions	**(15,491)**	3,797
Effect of asset ceiling	**(3,471)**	—
Re-measurement losses recognised in the SOCI	**(5,871)**	3,173
	£000	£000
Yates Group Pension scheme		
Return on plan assets excluding interest income	**1,486**	(114)
Experience gains	**(8)**	(257)
Effects of changes in demographic assumptions	**121**	158
Effects of changes in financial assumptions	**(1,396)**	340
Re-measurement gains recognised in the SOCI	**203**	127
Total re-measurement losses recognised in the SOCI	**(5,668)**	3,300

Cumulative amounts recognised in the SOCI:

	29 September 2019	30 September 2018
	£000	£000
At beginning of period	**(6,931)**	(10,231)
Re-measurement losses in the period	**(5,668)**	3,300
At end of period	**(12,599)**	(6,931)

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

	2019	2018	2017	2016	2015
	£000	£000	£000	£000	£000
Laurel Pub Pension scheme					
Present value of retirement benefit liabilities	**(92,840)**	(78,570)	(83,698)	(90,046)	(69,332)
Fair value of plan assets	**88,611**	74,534	73,485	75,819	62,112
Net liability in the scheme	**(4,229)**	(4,036)	(10,213)	(14,227)	(7,220)
Experience adjustment on scheme liabilities	**(107)**	(1,081)	791	1,482	1,441
Percentage of scheme liabilities	**0.1%**	1.4%	(0.9)%	(1.7)%	(2.1)%
Experience adjustments on scheme assets	**12,295**	(311)	(1,915)	12,279	1,712
Percentage of scheme assets	**13.9%**	(0.4)%	(2.6)%	16.2%	2.8%
	£000	£000	£000	£000	£000
Yates Group Pension scheme					
Present value of retirement benefit liabilities	**(13,238)**	(12,059)	(13,558)	(14,622)	(12,569)
Fair value of plan assets	**14,268**	12,971	14,322	14,686	13,299
Net asset in the scheme	**1,030**	912	764	64	730
Experience adjustment on scheme liabilities	**8**	(257)	366	225	725
Percentage of scheme liabilities	**0.1%**	2.1%	(2.7)%	(1.5)%	(5.8)%
Experience adjustments on scheme assets	**1,486**	(114)	(275)	1,466	107
Percentage of scheme assets	**10.4%**	(0.9)%	(1.9)%	10.0%	0.8%

23 Employee benefits (Continued)

The Group has agreed with the trustees of the Laurel Pub Pension scheme that it will aim to eliminate the deficit by the payment of annual contributions of £2,000,000 each year until 2023. The Group will meet the other annual fees and expenses (excluding the annual PPF levy) incurred by the scheme subject to a cap of £260,000 per scheme year.

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

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

	29 September 2019	30 September 2018
Male retiring in 2019	**21.0 years**	21.2 years
Female retiring in 2019	**22.9 years**	23.1 years
Male retiring in 2044	**22.8 years**	23.0 years
Female retiring in 2044	**24.9 years**	25.1 years

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

	29 September 2019	30 September 2018
	£000	£000
Laurel Pub Pension Scheme		
Discount rate	**1.90%**	2.90%
Rate of increase in pension payment	**3.10%**	3.10%
Inflation (RPI)	**3.20%**	3.30%
Inflation (CPI)	**2.20%**	2.30%
Yates Group Pension Scheme		
Discount rate	**1.90%**	2.90%
Rate of increase in pension payment	**2.20%**	2.30%
Inflation (RPI)	**3.20%**	3.30%
Inflation (CPI)	**2.20%**	2.30%

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

	2019	2018
	£000	£000
Laurel Pub Pension Scheme		
Equities	**37,973**	31,559
Bonds	**50,025**	42,711
Cash	**613**	264
Fair value of plan assets	**88,611**	74,534
Actual return on plan assets	**14,445**	1,734
Yates Group Pension Scheme		
Equities	**5,588**	4,977
Bonds	**8,460**	7,938
Cash	**220**	56
Other	**—**	—
Fair value of plan assets	**14,268**	12,971
Actual return on plan assets	**1,853**	264

23 Employee benefits (Continued)

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

	Change in assumption	Impact on scheme liabilities 29 September 2019	30 September 2018
		£000	£000
Laurel Pub Pension Scheme			
Discount rate	Increase of 0.10% p.a.	**(1,764)**	(1,493)
Rate of inflation	Increase of 0.10% p.a.	**1,764**	1,414
Rate of mortality	Increase in life expectancy of 1 year	**3,064**	2,357
Yates Group Pension Scheme			
Discount rate	Decrease of 0.25% p.a.	**410**	374
Rate of inflation	Increase of 0.25% p.a.	**371**	301
Rate of mortality	Increase in life expectancy of 1 year	**410**	386

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 29 September 2019 is 19 years for the Laurel Pub Pension scheme (2018: 19 years) and 12 years for the Yates Group Pension scheme (2018: 13 years).

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

24 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:

	2019 52 weeks	2018 53 weeks
	£000	£000
Salaries and short-term employee benefits	**17,784**	4,570
Post-employment pension benefits	**214**	203
	17,998	4,773

An element of the increased salaries and short-term employee benefits is due to the discretionary exit bonus described in note 7.

Other related party transactions

During the year interest was charged on loans to management as part of the MEP scheme of £8,000 (2018: £64,000). The scheme was closed during the period and loans were cancelled. The amount outstanding at 29 September 2019 and included in other receivables was £Nil (2018: £1,113,000).

There is an amount of £1,789,000 (2018: £2,557,000) owing to Stonegate Pub Company Midco Limited, the immediate parent company, at 29 September 2019, which is included in trade and other payables. During the year Stonegate Pub Company Midco Limited subscribed for shares in Stonegate Pub Company Limited for the value of £15,451,000 and paid up in full.

24 Related party transactions (Continued)

During a prior period the Group issued an interest free loan of £200,000 to Simon Longbottom, a director of Stonegate Pub Company Limited. This was repaid during the period.

Transactions with Group undertakings

During the year the Group was invoiced management charges of £2,006,000 (2018: £2,012,000) by TDR Capital LLP. The amount outstanding at 29 September 2019 was £Nil (2018: £501,000).

The Group also operated a handful of public houses on behalf of entities affiliated with investment funds managed by TDR Capital LLP, known as Cubitt House Limited. Purchases for these sites totalled £398,000 (2018: £377,000) and recharges were £350,000 (2018: £301,000), resulting in a balance owing from entities affiliated with investment funds managed by TDR Capital LLP of £85,000 (2018: £37,000).

During the year Stonegate Pub Company Limited provided a loan to Stonegate Pub Company Holdings Limited, the ultimate parent company, of £5,750,000. Interest was charged of £97,000. The loan is repayable on 4 April 2022 and charges annual interest of LIBOR +2.50%. The amount owed of £5,847,000 is included in non-current trade and other receivables.

25 Management Incentive Plan

During the period; the Group established a management incentive plan to reward certain employees, including directors and managers, for their future service. Under the plan those employees will realise a gain only if there is a growth in the equity value of the business (subject to certain 'ratchets') and only if an exit event occurs while they are still employed by the Group. The award has been classified as equity-settled. An exit event would occur either upon an initial public offering of the Stonegate group ('IPO') or some other form of sale (e.g. to a trade buyer). There is inherent uncertainty in determining a suitable vesting period given that an exit event , whilst within the control of the Group's ultimate owners, may not happen for many years if at all. However, for the purposes of considering the impact of IFRS 2, the directors consider it reasonable to use a minimum vesting period of 5 years.

The scheme is operated by the Group's ultimate owners and was established through subscription to shares in the Group's immediate parent company. A total of 1.5 million shares have been issued at an aggregate price of £16.3 million (£10.93 per share). The scheme was established on 28 February 2019. There have been no leavers, no forfeits, no expiries, no exercises and no further grants since this point. Information on the fair value at the date of grant has been obtained through the transaction price relating to the acquisition of the Group by a new private equity fund (TDR Capital Stonegate L.P.) at fair value from the previous private equity fund (TDR Capital II). The return available to the participating employees increases at a greater rate depending on the extent of growth in the equity value. No dividends will accrue under this award.

The excess of the fair value at the date of grant of the awards compared to the effective exercise price is not significant. This is based on management's assessment that any reasonable volatility measure, the estimated vesting terms and a risk free rate of around 1% would not have a material impact on fair value. The aggregate exercise price of £16.3 million is broadly equivalent to the gross fair value arising and consequently no income statement charge has been made.

There are no other share based payment schemes.

26 Ultimate parent undertaking

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

27 Post balance sheet events

There have been no post balance sheet events.

stonegate
PUB COMPANY

Annual report and financial statements

For the 53 weeks ended 30 September 2018

Registered number FC029833

Contents

Company information

Directors
Manjit Dale
Ian Payne
David Ross
Simon Longbottom
Brian Magnus

Secretary
Codan Trust Company (Cayman) Limited
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P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Registered office
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
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Statement of directors' responsibilities in respect of the annual report and the financial statements

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

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

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

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The Directors
Stonegate Pub Company Limited
Porter Tun House
500 Capability Green
Luton
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Your ref

Our ref ab/

Contact Simon Haydn-Jones
Tel 0118 964 4971

23 January 2019

Dear Directors

Independent auditor's report to Stonegate Pub Company Limited ("the Company")

Opinion

We have audited the non-statutory Group accounts of Stonegate Pub Company Limited and its subsidiaries (collectively "the Group") for the 53 week period ended 30 September 2018 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, and related notes, including the accounting policies in note 1. These non-statutory Group accounts have been prepared for the reasons set out in note 1 to the non-statutory Group accounts and on the basis of the financial reporting framework of International Financial Reporting Standards (IFRSs) as adopted by the EU.

In our opinion the non-statutory Group accounts:

- give a true and fair view of the state of the Group's affairs as at 30 September 2018 and of the Group's loss for the period then ended; and
- have been properly prepared in accordance with IFRSs as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and the terms of our engagement letter dated 13 January 2019. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to Britain exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as those assumptions determining the defined benefit pension liability and the impairment of property, plant, equipment and operating leases and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We took that uncertainty into account in our approach when assessing the Group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period".

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the non-statutory Group accounts. In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's business model, including the impact of Brexit, and analysed how these risks might affect the Group's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group or the Company will continue in operation.

Other information

The directors are responsible for the other information, which comprises the Strategic report and the Directors' report. Our opinion on the non-statutory Group accounts does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our non-statutory Group accounts audit work, the information therein is materially misstated or inconsistent with the non-statutory Group accounts or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Directors' responsibilities

As explained more fully in their statement set out on page 14, the directors are responsible for: the preparation of the non-statutory Group accounts, which are intended by them to give a true and fair view; 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; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

Our report has been prepared for the Stonegate Pub Company Limited ("the Company"), and their respective directors or executive officers ("the Addressees") solely in response to a request from the Addressees for an opinion from independent auditors on the truth and fairness of the non-statutory Group accounts. It has been released to the Addressees on the basis that our report shall not be copied, referred to or disclosed, in whole (save for the Addressees' own internal purposes) or in part, without our prior written consent.

Our report was designed to meet the agreed requirements of the Addressees determined by their needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Addressees for any purpose or in any context. Any party other than the Addressees who obtains access to our report or a copy and choose to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG LLP will accept no responsibility or liability in respect of our report to any other party.

KPMG LLP
Chartered Accountants
23 January 2019

Consolidated Income Statement

For the 53 weeks ended 30 September 2018

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

1 Exceptional items are explained further in note 7.

The notes on pages F-14 to F-152 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the 53 weeks ended 30 September 2018

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

The notes on pages F-14 to F-152 form part of these financial statements.

Consolidated Balance Sheet

At 30 September 2018

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

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

David Ross
Director

Company registered number: FC029833

Consolidated Statement of Changes in Equity

For the 53 weeks ended 30 September 2018

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

Consolidated Cash Flow Statement

For the 53 weeks ended 30 September 2018

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

Notes to the consolidated financial statements

1 Accounting policies

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

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

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

No parent company information is presented in these consolidated financial statements, Companies Law (2013 Revision) in the Cayman Islands does not require such information to be presented. The parent company information has been prepared under FRS 102. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

1.1 Measurement convention

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

1.2 Going concern

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

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

The Group met its day-to-day working capital requirements through its standard trading cycle of cash generation and its £50,000,000 combined overdraft and revolving credit facility. The Directors consider that this is a normal feature of trading in this industry. Customers pay by cash resulting in minimal credit risk and the Group takes advantage of supplier credit terms. Therefore the Group typically operates with net current liabilities with this financial year seeing an increase from the bridging finance facilities utilised for acquisitions (current period net current liabilities of £154,161,000; 2017: net current liabilities of £87,350,000). In the forthcoming period the Group expects to continue to achieve year on year pre-exceptional operating profit growth (both organically and through acquisitions) and be cash generative at an operating cash flow level and at a total cash flow level. At the period end the Group had drawn down £25,000,000 of its revolving credit facility (2017: £8,000,000).

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

Management have prepared a board paper on going concern showing the Group’s forecasts and projections prepared for a period covering fifteen months from the date of approval of the financial

1 Accounting policies (Continued)

statements. Taking account of reasonable possible changes in trading performance, the board paper shows that the Group will be able to operate within the level of its current borrowing facility. Applying reasonably possible sales based sensitivities year on year the Group's forecasts show that it would continue to operate within its facility and within financial covenants.

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

1.3 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 30 September 2018. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

1.4 Classification of financial instruments issued by the Group

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

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

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

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

1.5 Non-derivative financial instruments

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

Trade and other receivables

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

Trade and other payables

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

Cash and cash equivalents

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

Interest-bearing borrowings

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

1 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.

The group capitalises employment costs and related personal expenses of individuals whose job roles are fundamentally associated with managing or implementing the Group's capital development programme. Judgement is therefore applied in determining the element of internal labour costs which are directly attributable to capital projects. Where such an individual undertakes non-capital expenditure related activities as part of their job roles then a proportion of their cost is not capitalised unless the non-capital expenditure related activities are incidental to their role.

1.8 Sale and leaseback transactions

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

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.

1 Accounting policies (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 of 10 years.

1.11 Inventories

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

1.12 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

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

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

Non-financial assets

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

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of

1 Accounting policies (Continued)

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.

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

1 Accounting policies (Continued)

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.

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.

1 Accounting policies (Continued)

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

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

1.18 Exceptional items

The Group presents separately on the face of the income statement those material items of income and expense which are outside of the normal course of trading, which management consider will distort comparability, in order to provide a trend measure of underlying performance. These costs are discussed further in note 7.

1.19 Key accounting judgements and estimates

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

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

Key accounting judgements

The following are the key judgements, apart from those involving estimations, dealt with separately below, that management have made in the process of applying the Group's accounting policies and which have the most significant effect on the amounts recognised in the financial statements.

Exceptional items

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

Key areas of estimation

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

Impairment of property, plant, equipment and operating leases

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

1 Accounting policies (Continued)

Onerous lease provisions

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

Defined pension benefit schemes

The present value of defined benefit pension scheme liabilities are determined on an actuarial basis and depend on a number of actuarial assumptions, which are disclosed in note 24. Any changes in these assumptions could impact the carrying amounts of retirement benefit assets / liabilities.

Business combinations

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

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

1.20 Segmental reporting

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

1.21 New standards, interpretations and amendments to existing standards

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

- The IASB issued IFRS 16 Leases in January 2016. The new standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The new standard will be effective for periods beginning on or after 1 January 2019, and the group plans to adopt IFRS 16 in the period beginning 30 September 2019. For lessors, there is little change to the existing accounting in IAS 17 Leases. The application of IFRS 16 will have a material impact on the group's consolidated financial results and financial position. This includes recognition of interest and amortisation expense in place of fixed rental expense in the income statement and the recognition of right-of-use assets and lease liabilities for its operating lease portfolio on the balance sheet. There is no net cash flow impact on application of IFRS 16, although the classification of cash flows will be affected as operating lease payments under IAS 17 are presented as operating cash flows, whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

  The group has a comprehensive project under way to assess the overall impact of adopting IFRS 16, including: determining the preferred transition approach and quantifying the financial impacts; addressing the future data collection requirements and updating processes accordingly; and integrating IFRS 16 into all its reporting with effect from 30 September 2019. It is not practicable to provide a reasonable estimate of the financial effect of the initial application of IFRS 16 until this assessment project has been completed.

- The IASB issued IFRS 15 Revenue from Contracts with Customers in May 2014, and amended it in April 2016. The new standard provides a single, five-step revenue recognition model, applicable to all sales contracts, which is based upon the principle that revenue is recognised when the control of goods or services is transferred to the customer. The new standard is effective for accounting periods beginning on or after 1 January 2018, and will be adopted by the group from 1 October 2018. This standard replaces all existing revenue recognition guidance under current IFRS. The group has

1 Accounting policies (Continued)

completed an impact assessment and determined that the adoption of IFRS 15 will not have a material impact on its consolidated results and financial position, but will result in additional disclosure requirements.

- IFRS 9 Financial Instruments—IFRS 9 Financial Instruments was first issued in November 2009 with a complete version issued in July 2014 and is a replacement of IAS 39 Financial Instruments: Recognition and Measurement. The new standard becomes effective for annual periods beginning on or after 1 January 2018. The group has assessed the impact and determined that the adoption of IFRS 9 will not have a material impact on its consolidated results and financial position.

2 Revenue

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

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

3 Expenses

Included in operating profit are the following expenses:

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

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

4 Employees

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

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

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

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

The aggregate payroll costs of these persons were as follows:

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

5 Finance income

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

6 Finance costs

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

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

7 Exceptional items

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

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

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

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

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

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

7 Exceptional items (Continued)

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

8 Taxation

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

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

Reconciliation of total tax charge

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

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

9 Property, plant and equipment

	Land and buildings	Leasehold improvements	Furniture, fixtures and equipment	Total
	£000	£000	£000	£000
Cost				
At 25 September 2016	307,874	103,648	195,060	606,582
Acquisitions through business combinations	15,897	—	2,698	18,595
Additions	9,109	17,790	55,761	82,660
Disposals	(5,575)	(487)	(14,977)	(21,039)
Fully depreciated assets	(3)	(4,976)	(12,019)	(16,998)
Reclassification	2,423	(2,423)	—	—
At 24 September 2017	329,725	113,552	226,523	669,800
Acquisitions through business combinations	760	—	1,490	2,250
Additions	6,253	14,925	50,049	71,227
Disposals	(6,200)	(1,449)	(13,581)	(21,230)
Fully depreciated assets	(7)	(406)	(20,631)	(21,044)
At 30 September 2018	**330,531**	**126,622**	**243,850**	**701,003**
Depreciation				
At 25 September 2016	(7,216)	(32,009)	(90,634)	(129,859)
Charge for the year	(1,087)	(7,232)	(34,739)	(43,058)
Impairment (note 11)	(1,226)	(400)	(328)	(1,954)
Disposals	407	206	8,376	8,989
Fully depreciated assets	3	4,976	12,019	16,998
At 24 September 2017	(9,119)	(34,459)	(105,306)	(148,884)
Charge for the year	(1,403)	(9,046)	(39,548)	(49,997)
Impairment (note 11)	—	(1,753)	(931)	(2,684)
Disposals	938	1,206	8,404	10,548
Fully depreciated assets	7	406	20,631	21,044
At 30 September 2018	**(9,577)**	**(43,646)**	**(116,750)**	**(169,973)**
Net book value				
At 30 September 2018	**320,954**	**82,976**	**127,100**	**531,030**
At 24 September 2017	320,606	79,093	121,217	520,916
At 25 September 2016	300,658	71,639	104,426	476,723

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

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

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

10 Goodwill, operating leases and brand intangible assets

	Brand	Operating leases	Goodwill
	£000	£000	£000
Cost			
At 25 September 2016	—	55,265	111,232
Acquisitions through business combinations	2,000	42,029	7,400
Disposals	—	—	(681)
Fully depreciated assets	—	(841)	—
At 24 September 2017	2,000	96,453	117,951
Acquisitions through business combinations	3,728	51,299	12,075
Disposals	—	(2,597)	(1,242)
Fully depreciated assets	—	(156)	—
At 30 September 2018	**5,728**	**144,999**	**128,784**
Amortisation			
At 25 September 2016	—	(12,664)	(3,810)
Charge for the year	(190)	(5,671)	—
Impairment (note 11)	—	(290)	—
Fully depreciated assets	—	841	—
At 24 September 2017	(190)	(17,784)	(3,810)
Charge for the year	(301)	(8,408)	—
Impairment (note 11)	—	(31)	—
Disposals	—	797	—
Fully depreciated assets	—	156	—
At 30 September 2018	**(491)**	**(25,270)**	**(3,810)**
Net book value			
At 30 September 2018	**5,237**	**119,729**	**124,974**
At 24 September 2017	1,810	78,669	114,141

During the current period the Group acquired £3,728,000 of brand (2017: £2,000,000); £51,299,000 of operating leases (2017: £42,029,000) and £12,075,000 of goodwill (2017: £7,400,000) as a result of business combinations. See note 12 for details of these acquisitions.

11 Impairment losses

Property, plant and equipment and operating lease intangible assets

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

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

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

Indicators of impairment were found in each of the periods ended 30 September 2018 and 24 September 2017 on a small number of individual CGUs and consequently impairment reviews were carried out on the

11 Impairment losses (Continued)

affected CGUs. Impairments totalling £2,951,000 (2017: £2,244,000) were identified. Impairment reversals of £236,000 were also identified (2017: £Nil).

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

Goodwill

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

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

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

12 Acquisitions and disposals

Acquisitions in the current period

Be At One Holdings Limited

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

12 Acquisitions and disposals (Continued)

2022 if certain conditions are met and will incur an interest rate of 3 months LIBOR + 5%. A summary of the provisional fair values of the assets and liabilities acquired are given in the table below:

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

Goodwill is considered to represent the value of the acquired specialist cocktail-makers workforce and synergies benefits that will be gained from combining these sites with the Group's existing portfolio of brands and sites. The Group incurred acquisition-related costs of £1,821,000 related to stamp duty and external legal and professional fees. These costs have been included in 'operating exceptional costs' in the consolidated income statement (see note 7).

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

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

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

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

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

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

Novus Limited

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

12 Acquisitions and disposals (Continued)

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

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

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

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

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

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

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

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

Other acquisitions

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

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

Acquisitions in the prior period

Intertain Limited

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

The estate is a very good fit with the Group's existing portfolio of pubs and bars. It also gives the opportunity to trade in some towns and cities in which Stonegate Pub Company Limited did not have any

12 Acquisitions and disposals (Continued)

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.

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.

12 Acquisitions and disposals (Continued)

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.

Bar Holdings Limited

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

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

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

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

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

12 Acquisitions and disposals (Continued)

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

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

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

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

Other acquisitions in the prior period

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

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

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

Disposals in the current period

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

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

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

Disposals in the prior period

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

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

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

13 Investments in subsidiaries

The Company has the following investments in subsidiaries.

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

* Held indirectly

14 Deferred tax assets and liabilities

Movement in deferred tax during the period is as follows:

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

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

Deferred tax assets

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

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

Deferred tax liabilities

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

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

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

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

14 Deferred tax assets and liabilities (Continued)

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

15 Inventories

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

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

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

16 Trade and other receivables

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

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

17 Trade and other payables

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

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

18 Borrowings

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

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

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

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

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

Terms and debt repayment schedule:

	Principal borrowed	Year of maturity	Principal outstanding 30 September 2018	Principal outstanding 24 September 2017
	£000		£000	£000
Secured fixed notes	405,000	2022	**405,000**	405,000
Secured floating notes	190,000	2022	**190,000**	190,000
			595,000	595,000

On 16 March 2017 Stonegate Pub Company Financing plc, a public limited company incorporated under the laws of England and Wales and a wholly owned subsidiary of Stonegate Pub Company Limited, received £595,000,000 from the issue of £405,000,000 fixed loan notes charging an annual interest rate of 4.875% and £190,000,000 floating loan notes charging an annual interest rate of 3 months LIBOR + 4.375%. The notes will mature on 15 March 2022 and are listed on the Channel Islands stock exchange. Amortised debt issue costs of £3,991,000 offset the loan balance at the period end.

19 Financial instruments

Fair values of financial instruments

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

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

The following assumptions were used to estimate the fair values:

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

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

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

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

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

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

Fair value hierarchy

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

The classification uses the following three-level hierarchy:

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

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

Capital risk management

The Group's capital structure consists of debt, issued share capital and reserves. These are managed effectively to minimise the Group's cost of capital, to add value to shareholders and to service debt

19 Financial instruments (Continued)

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.

	Within 1 year	1 - 2 years	2 - 5 years	> 5 years	Total
	£000	**£000**	**£000**	**£000**	**£000**
At 30 September 2018					
Interest-bearing loans and borrowings					
—capital	**69,268**	**—**	**595,000**	**—**	**664,268**
—interest	**30,247**	**28,946**	**43,559**	**—**	**102,752**
Bank overdrafts	**10,903**	**—**	**—**	**—**	**10,903**
Revolving credit facility	**25,000**	**—**	**—**	**—**	**25,000**
Trade payables	**54,607**	**—**	**—**	**—**	**54,607**
Other payables	**17,613**	**—**	**—**	**—**	**17,613**
	207,638	**28,946**	**638,559**	**—**	**875,143**
	£000	**£000**	**£000**	**£000**	**£000**
At 24 September 2017					
Interest-bearing loans and borrowings					
—capital	—	—	595,000	—	595,000
—interest	28,750	28,580	71,160	—	128,490
Bank overdrafts	12,963	—	—	—	12,963
Revolving credit facility	8,000	—	—	—	8,000
Trade payables	58,300	—	—	—	58,300
Other payables	23,890	—	—	—	23,890
	131,903	28,580	666,160	—	826,643

Credit risk

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

19 Financial instruments (Continued)

represents the maximum credit exposure. The ageing of trade and other receivables at the balance sheet date, gross of the doubtful debt provision, is as follows:

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

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

20 Provisions

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

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

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

21 Share capital

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

Ordinary shares

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

21 Share capital (Continued)

Share premium

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

Retained earnings

Cumulative profit and loss net of distributions to owners.

22 Commitments

Operating leases relating to land and buildings

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

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

Capital commitments

Capital commitments for property, plant and equipment:

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

23 Contingent liability

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

24 Employee benefits

Defined contribution pension schemes

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

Defined benefit pension schemes

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

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

24 Employee benefits (Continued)

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

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

The amounts recognised in the balance sheet are as follows:

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

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

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

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

24 Employee benefits (Continued)

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

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

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

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

24 Employee benefits (Continued)

Analysis of amounts recognised in the SOCI in the period:

	2018 53 weeks £000	2017 52 weeks £000
Laurel Pub Pension scheme		
Return on plan assets excluding interest income	**(311)**	(1,915)
Experience gains	**(1,081)**	791
Effects of changes in demographic assumptions	**768**	2,125
Effects of changes in financial assumptions	**3,797**	2,399
Re-measurement losses recognised in the SOCI	**3,173**	3,400

	£000	£000
Yates Group Pension scheme		
Return on plan assets excluding interest income	**(114)**	(275)
Experience gains	**(257)**	366
Effects of changes in demographic assumptions	**158**	224
Effects of changes in financial assumptions	**340**	384
Re-measurement gains recognised in the SOCI	**127**	699
Total re-measurement losses recognised in the SOCI	**3,300**	4,099

Cumulative amounts recognised in the SOCI:

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

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

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

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

24 Employee benefits (Continued)

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

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

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

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

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

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

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

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

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:

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

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

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

25 Related party transactions

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

Transactions with key management personnel

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

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

Other related party transactions

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

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

25 Related party transactions (Continued)

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

Transactions with Group undertakings

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

26 Ultimate parent undertaking

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

27 Post balance sheet events

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

Annual report and financial statements

For the 52 weeks ended 24 September 2017

Registered number FC029833

Contents

Company information

Directors
Manjit Dale
Ian Payne
David Ross
Simon Longbottom
Brian Magnus

Secretary
Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Registered office
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P.O. Box 2681
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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

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Your ref

Our ref ab/

Contact Simon Haydn-Jones
Tel 0118 964 4971

19 January 2018

Dear Directors

Independent auditor's report to Stonegate Pub Company Limited ("the Company")

Opinion

We have audited the non-statutory Group accounts of Stonegate Pub Company Limited and its subsidiaries (collectively "the Group") for the 52 week period ended 24 September 2017 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, and related notes, including the accounting policies in note 1. These non-statutory Group accounts have been prepared for the reasons set out in note 1 to the non-statutory Group accounts and on the basis of the financial reporting framework of International Financial Reporting Standards (IFRSs) as adopted by the EU.

In our opinion the non-statutory Group accounts:

- give a true and fair view of the state of the Group's affairs as at 24 September 2017 and of the Group's loss for the period then ended; and
- have been properly prepared in accordance with IFRSs as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and the terms of our engagement letter dated 11 January 2018. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, the International Ethics Standards Board for Accountants (IESBA) ethical requirements. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the non-statutory Group accounts. We have nothing to report in these respects.

Other information

The directors are responsible for the other information, which comprises the Strategic report and the Directors' report. Our opinion on the non-statutory Group accounts does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our non-statutory Group accounts audit work, the information therein is materially misstated or inconsistent with the non-statutory Group accounts or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Directors' responsibilities

As explained more fully in their statement set out on page 13, the directors are responsible for: the preparation of the non-statutory Group accounts, which are intended by them to give a true and fair view; 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; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

Our report has been prepared for the Stonegate Pub Company Limited ("the Company"), and their respective directors or executive officers ("the Addressees") solely in response to a request from the Addressees for an opinion from independent auditors on the truth and fairness of the non-statutory Group accounts. It has been released to the Addressees on the basis that our report shall not be copied, referred to or disclosed, in whole (save for the Addressees' own internal purposes) or in part, without our prior written consent.

Our report was designed to meet the agreed requirements of the Addressees determined by their needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Addressees for any purpose or in any context. Any party other than the Addressees who obtains access to our report or a copy and choose to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG LLP will accept no responsibility or liability in respect of our report to any other party.

KPMG LLP
Chartered Accountants
19 January 2018

Consolidated Income Statement

For the 52 weeks ended 24 September 2017

	Notes	52 weeks ended 24 September 2017			52 weeks ended 25 September 2016		
		Pre-exceptional items	Exceptional items[1]	Total	Pre-exceptional items	Exceptional items[1]	Total
		£000	£000	£000	£000	£000	£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 F-58 to F-89 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	52 weeks ended 25 September 2016
		£000	£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 F-58 to F-89 form part of these financial statements.

Consolidated Balance Sheet

At 24 September 2017

	Notes	24 September 2017	25 September 2016
		£000	£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 January 2018 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	Share premium	Retained earnings	Total equity
	£000	£000	£000	£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	52 weeks ended 25 September 2016
	£000	£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 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

1 Accounting policies (Continued)

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.

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 Accounting policies (Continued)

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.

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 Accounting policies (Continued)

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.

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

1 Accounting policies (Continued)

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.

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 Accounting policies (Continued)

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.

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 Accounting policies (Continued)

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.

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.

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	**2016 52 weeks**
	£000	**£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	**2016 52 weeks**
	£000	**£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).

4 Employees

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

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

6 Finance costs

	2017 52 weeks	2016 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).

7 Exceptional items

	2017 52 weeks £000	2016 52 weeks £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.

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)

9 Property, plant and equipment

	Leasehold improvements	Land and buildings	Furniture, fixtures and equipment	Total
	£000	£000	£000	£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).

10 Goodwill, operating leases and brand intangible assets

	Brand	Operating leases	Goodwill
	£000	£000	£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.

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.

11 Impairment losses (Continued)

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.

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.

12 Acquisitions and disposals (Continued)

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.

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.

12 Acquisitions and disposals (Continued)

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.

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.

12 Acquisitions and disposals (Continued)

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.

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.

12 Acquisitions and disposals (Continued)

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.

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.

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

14 Deferred tax assets and liabilities

Movement in deferred tax during the period is as follows:

	24 September 2017	25 September 2016
	£000	£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	Retirement benefit liabilities	Financial instruments	Property, plant and equipment	Temporary differences	Total
	£000	£000	£000	£000	£000	£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	Property, plant and equipment	Temporary differences	Total
	£000	£000	£000	£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.

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.

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.

18 Borrowings (Continued)

Terms and debt repayment schedule:

	Principal borrowed	Year of maturity	Principal outstanding 24 September 2017	25 September 2016
	£000		£000	£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%.

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 2017	Fair value 2016	Carrying value 2017	Carrying value 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.

19 Financial instruments (Continued)

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

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

The Group's financial instruments, 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.

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.

19 Financial instruments (Continued)

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.

	Within 1 year	1 - 2 years	2 - 5 years	> 5 years	Total
	£000	£000	£000	£000	£000
At 24 September 2017					
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**
	£000	£000	£000	£000	£000
At 25 September 2016					
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

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	25 September 2016
	£000	£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	Health and safety claims	Total
	£000	£000	£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.

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	25 September 2016
	£000	£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	25 September 2016
	£000	£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

22 Commitments (Continued)

Capital commitments

Capital commitments for property, plant and equipment:

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

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
	£000	£000
Laurel Pub Pension scheme		
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)
	£000	£000
Yates Group Pension scheme		
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)

24 Employee benefits (Continued)

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.

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

	24 September 2017	25 September 2016
	£000	£000
Laurel Pub Pension scheme		
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
	£000	£000
Yates Group Pension scheme		
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
	£000	£000
Laurel Pub Pension scheme		
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
	£000	£000
Yates Group Pension scheme		
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

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 52 weeks	2016 52 weeks
	£000	£000
Laurel Pub Pension scheme		
Past service costs	**—**	—
Interest cost	**316**	265
Expenses	**70**	21
Net cost	**386**	286
	£000	£000
Yates Group Pension scheme		
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 52 weeks	2016 52 weeks
	£000	£000
Laurel Pub Pension scheme		
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)
	£000	£000
Yates Group Pension scheme		
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 2017	25 September 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)

24 Employee benefits (Continued)

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

	2017	2016	2015	2014	2013
	£000	£000	£000	£000	£000
Laurel Pub Pension scheme					
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%

	£000	£000	£000	£000	£000
Yates Group Pension scheme					
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

24 Employee benefits (Continued)

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

	24 September 2017	25 September 2016
	£000	£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	2016
	£000	£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

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

		Impact on scheme liabilities	
	Change in assumption	24 September 2017	25 September 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).

24 Employee benefits (Continued)

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 52 weeks	2016 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

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 Longbottom, 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.

Ei Group Limited

Condensed consolidated interim financial information

for the 13 weeks ended 28 December 2019 (13 weeks ended 29 December 2018)

Group income statement

for the 13 weeks ended 28 December 2019

	Notes	Unaudited 13 weeks ended 28 December 2019	Unaudited 13 weeks ended 29 December 2018	Audited Year ended 30 September 2019
		£m	**£m**	**£m**
Revenue		**185**	185	724
Operating costs before depreciation and amortisation		**(112)**	(111)	(456)
EBITDA*		**73**	74	268
Depreciation and amortisation		**(8)**	(5)	(21)
Operating profit		**65**	69	247
Profit/(loss) on sale of property		**1**	—	(7)
Goodwill allocated to disposals		**—**	(1)	(35)
Net profit/(loss) on sale of property	3	**1**	(1)	(42)
Movements in valuation of the estate and related assets	3	**(5)**	(3)	(20)
Goodwill impairment		**—**	—	(232)
Finance costs	4	**(36)**	(36)	(152)
Profit/(loss) before tax		**25**	29	(199)
Taxation	5	**(5)**	(5)	(10)
Profit/(loss) after tax attributable to members of the Parent Company		**20**	24	(209)
Earnings/(loss) per share	6			
Basic		**4.6p**	5.3p	(46.2)p
Diluted		**4.5p**	5.2p	(46.2)p

* Earnings before taxation, finance costs, goodwill impairment, movements in valuation of the estate and related assets, net profit/(loss) on sale of property and depreciation and amortisation

For the 13 weeks ended 28 December 2019 IFRS 16 has been adopted on a modified retrospective basis and comparatives are not restated.

Statement of comprehensive income

for the 13 weeks ended 28 December 2019

	Unaudited 13 weeks ended 28 December 2019	Unaudited 13 weeks ended 29 December 2018	Audited Year ended 30 September 2019
	£m	£m	£m
Profit/(loss) for the period	**20**	24	(209)
Items that will not be reclassified to the income statement:			
Unrealised surplus on revaluation of the pub estate	**—**	—	16
Revaluation of assets on transfer to investment property	**(4)**	—	(5)
Revaluation of assets on transfer to non-current assets held for sale	**(1)**	—	—
Movement in deferred tax liability related to revaluation of the estate	**—**	—	(3)
Other comprehensive (losses)/income for the period net of tax	**(5)**	—	8
Total comprehensive income/(loss) for the period attributable to members of the Parent Company	**15**	24	(201)

Group balance sheet

as at 28 December 2019

	Notes	Unaudited 28 December 2019	Unaudited 29 December 2018	Audited 30 September 2019
		£m	£m	£m
Non-current assets				
Goodwill	7	**37**	303	37
Intangible assets: operating lease premiums		**—**	9	8
Property, plant and equipment	8	**3,344**	3,211	3,185
Investment property	9	**107**	22	81
Financial assets		**9**	—	1
Trade receivables		**3**	3	3
		3,500	3,548	3,315
Current assets				
Inventories		**7**	5	5
Trade and other receivables	11	**58**	67	48
Financial assets		**1**	3	1
Current tax receivable		**1**	—	—
Cash		**156**	165	156
		223	240	210
Non-current assets held for sale	10	**39**	382	15
Total assets		**3,762**	4,170	3,540
Current liabilities				
Trade and other payables	12	**(181)**	(200)	(196)
Current tax payable		**—**	(12)	(5)
Financial liabilities	13	**(23)**	(95)	(19)
Pension		**(1)**	(1)	(1)
Provisions		**—**	(1)	(1)
		(205)	(309)	(222)
Non-current liabilities				
Financial liabilities	13	**(2,133)**	(2,124)	(1,845)
Provisions		**—**	(5)	(5)
Deferred tax		**(161)**	(173)	(172)
		(2,294)	(2,302)	(2,022)
Total liabilities		**(2,499)**	(2,611)	(2,244)
Net assets		**1,263**	1,559	1,296
Equity				
Called up share capital		**12**	13	12
Share premium account		**486**	486	486
Revaluation reserve		**670**	751	675
Capital redemption reserve		**13**	12	13
Merger reserve		**77**	77	77
Treasury share reserve		**(227)**	(227)	(227)
Other reserve		**(3)**	(2)	(3)
Profit and loss account		**234**	448	262
Equity attributable to members of the Parent Company		**1,262**	1,558	1,295
Non-controlling interests		**1**	1	1
Total equity		**1,263**	1,559	1,296

Group statement of changes in equity

at 28 December 2019

	Share capital	Share premium account	Revaluation reserve	Capital redemption reserve	Merger reserve	Treasury share reserve	Other reserve	Profit and loss account	Equity attributable to members of the Parent Company	Non-controlling interests	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 30 September 2019	**12**	**486**	**675**	**13**	**77**	**(227)**	**(3)**	**262**	**1,295**	**1**	**1,296**
Profit for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**20**	**20**	**—**	**20**
Other comprehensive losses	**—**	**—**	**(5)**	**—**	**—**	**—**	**—**	**—**	**(5)**	**—**	**(5)**
Total comprehensive (losses)/income	**—**	**—**	**(5)**	**—**	**—**	**—**	**—**	**20**	**15**	**—**	**15**
Adoption of IFRS 16	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(49)**	**(49)**	**—**	**(49)**
Share-based expense recognised in operating profit	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1**	**1**	**—**	**1**
At 28 December 2019	**12**	**486**	**670**	**13**	**77**	**(227)**	**(3)**	**234**	**1,262**	**1**	**1,263**
At 30 September 2018	13	486	751	12	77	(227)	(2)	443	1,553	1	1,554
Profit for the period	—	—	—	—	—	—	—	24	24	—	24
Other comprehensive income	—	—	—	—	—	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	—	—	—	24	24	—	24
Share-based expense recognised in operating profit	—	—	—	—	—	—	—	1	1	—	1
Share buyback	—	—	—	—	—	—	—	(11)	(11)	—	(11)
Share buyback commitment	—	—	—	—	—	—	—	(9)	(9)	—	(9)
At 29 December 2018	13	486	751	12	77	(227)	(2)	448	1,558	1	1,559

Group statement of changes in equity (Continued)

	Share capital	Share premium account	Revaluation reserve	Capital redemption reserve	Merger reserve	Treasury share reserve	Other reserve	Profit and loss account	Equity attributable to members of the Parent Company	Non-controlling interests	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 30 September 2018	13	486	751	12	77	(227)	(2)	443	1,553	1	1,554
Loss for the year	—	—	—	—	—	—	—	(209)	(209)	—	(209)
Other comprehensive income	—	—	8	—	—	—	—	—	8	—	8
Total comprehensive income/(loss)	—	—	8	—	—	—	—	(209)	(201)	—	(201)
Transfer of realised revaluation surplus	—	—	(101)	—	—	—	—	101	—	—	—
Transfer of deferred tax	—	—	17	—	—	—	—	(17)	—	—	—
Share-based expense recognised in operating profit	—	—	—	—	—	—	—	3	3	—	3
Share option entitlements exercised in the year	—	—	—	—	—	—	2	(2)	—	—	—
Tax related to share schemes recognised directly in equity	—	—	—	—	—	—	—	2	2	—	2
Purchase of own shares into EBT	—	—	—	—	—	—	(3)	—	(3)	—	(3)
Share buybacks	(1)	—	—	1	—	—	—	(59)	(59)	—	(59)
At 30 September 2019	12	486	675	13	77	(227)	(3)	262	1,295	1	1,296

Group cash flow statement

for the 13 weeks ended 28 December 2019

	Unaudited 13 weeks ended 28 December 2019	Unaudited 13 weeks ended 29 December 2018	Audited Year ended 30 September 2019
	£m	**£m**	**£m**
Cash flow from operating activities			
Operating profit	**65**	69	247
Depreciation and amortisation	**8**	5	21
Share-based expense recognised in the income statement	**1**	1	3
(Increase)/decrease in receivables	**(14)**	(11)	6
Decrease in payables	**(10)**	(9)	(10)
Increase in inventories	**(2)**	(2)	(2)
	48	53	265
Tax paid	**(12)**	(4)	(18)
Net cash flows from operating activities	**36**	49	247
Cash flows from investing activities			
Payments made on improvements to public houses	**(20)**	(18)	(81)
Payments to acquire other property, plant and equipment	**(3)**	(1)	(6)
Receipts from sale of property	**4**	3	384
Net cash flows from investing activities	**(19)**	(16)	297
Cash flows from financing activities			
Interest paid	**(27)**	(30)	(139)
Interest received	**—**	—	2
Debt restructuring costs	**—**	(2)	(2)
Debt redemption costs	**(1)**	—	(14)
Payments to acquire own shares	**—**	(11)	(63)
Principal element of lease payments	**(1)**	—	—
New loans	**35**	200	320
Repayment of loans	**(23)**	(183)	(650)
Net cash flows from financing activities	**(17)**	(26)	(546)
Net increase/(decrease) in cash	**—**	7	(2)
Cash at start of the period	**156**	158	158
Cash at end of the period	**156**	165	156

Notes

1. Accounting policies and basis of preparation

The financial information contained in this interim financial report, which is unaudited, does not constitute statutory accounts in accordance with the Companies Act 2006. The financial information for the year ended 30 September 2019 is extracted from the statutory accounts for that year, on which the auditors issued an unqualified opinion that did not include an emphasis of matter reference or statements under section 498(2) or (3) of the Companies Act 2006.

The condensed consolidated interim financial information consolidates those results of the Company and its subsidiaries (the Group) and has been prepared in accordance with the Companies Act 2006 and IAS 34 'Interim Financial Reporting'.

The results for the current and comparative period are unaudited. No Parent Company information is presented in the condensed consolidated interim financial information, as allowed under the Companies Act 2006.

The current period results are presented for the 13 week period from 1 October 2019 to 28 December 2019 (prior period: 13 week period from 1 October 2018 to 29 December 2018). The impact of one less day in the current period as compared to the prior period is estimated to have had the impact of reducing revenue by £1 million and EBITDA by £nil.

The condensed consolidated interim financial information has been prepared on a consistent basis using the accounting policies set out in the Annual Report and Accounts for the year ended 30 September 2019 other than those new standards that have been adopted during the period as explained below.

New standards adopted and interpretations adopted during the period:

IFRS 16—Leases

Adoption

The Group has adopted IFRS 16—Leases on 1 October 2019 following the modified retrospective approach which resulted in the recognition of a lease liability at the date of initial application measured at the present value of the remaining lease payments discounted using the incremental borrowing rate at 1 October 2019, which averaged 5.8%, along with a right of use asset based on either the carrying amount as if IFRS 16 had been applied since the lease commencement date, but discounted using the incremental borrowing rate at 1 October 2019 or an amount equal to the lease liability adjusted for payment made immediately prior to initial adoption on a lease by lease basis.

1. Accounting policies and basis of preparation (Continued)

The change in accounting policy resulted in the following adjustments being made to the opening balance sheet as at 1 October 2019:

	As at 30 September 2019 £m	IFRS 16 adoption £m	As at 1 October 2019 £m
Non-current assets			
Goodwill	37	—	37
Intangible assets: operating lease premiums	8	(8)	—
Property, plant and equipment	3,185	194	3,379
Investment property	81	9	90
Financial assets	1	—	1
Trade receivables	3	—	3
	3,315	195	3,510
Current assets			
Inventories	5	—	5
Trade and other receivables	48	(5)	43
Financial assets	1	9	10
Cash	156	—	156
	210	4	214
Non-current assets held for sale	15	12	27
Total assets	3,540	211	3,751
Current liabilities			
Trade and other payables	(196)	5	(191)
Current tax payable	(5)	—	(5)
Financial liabilities	(19)	(4)	(23)
Pension	(1)	—	(1)
Provisions	(1)	1	—
	(222)	2	(220)
Non-current liabilities			
Financial liabilities	(1,845)	(277)	(2,122)
Provisions	(5)	5	—
Deferred tax	(172)	10	(162)
	(2,022)	(262)	(2,284)
Total liabilities	(2,244)	(260)	(2,504)
Net assets	1,296	(49)	1,247
Equity			
Called up share capital	12	—	12
Share premium account	486	—	486
Revaluation reserve	675	—	675
Capital redemption reserve	13	—	13
Merger reserve	77	—	77
Treasury share reserve	(227)	—	(227)
Other reserve	(3)	—	(3)
Profit and loss account	262	(49)	213
Equity attributable to members of the Parent Company	1,295	(49)	1,246
Non-controlling interests	1	—	1
Total equity	1,296	(49)	1,247

1. Accounting policies and basis of preparation (Continued)

Change to accounting policy

Prior to the adoption of IFRS 16 leases were classified as either finance leases or operating leases. Where substantially all the risks and rewards of ownership were retained by the lessor the lease was classified as an operating lease and the rentals paid were charged on a straight line basis to the income statement over the lease term.

Following adoption of IFRS 16 a right of use asset and a corresponding lease liability are recognised for all leases. The right of use asset is depreciated on a straight line basis over the lease term and lease payments made are apportioned between the interest charge and a reduction of the lease liability so as to obtain a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the income statement.

Effect of IFRS 16 on the results for the 13 weeks ended 28 December 2019

	As at 1 October 2019	Reclassification of existing finance leases	Depreciation	Lease payments	Interest	As at 28 December 2019
	£m	£m	£m	£m	£m	£m
Right of use assets:						
Property, plant and equipment	194	70	(2)	—	—	**262**
Investment property	9	—	—	—	—	**9**
Non-current assets held for sale	12	—	—	—	—	**12**
Lease liabilities:						
Current	(4)	—	—	—	—	**(4)**
Non-current	(277)	(3)	—	5	(4)	**(279)**

Going concern

On 3 March 2020 the acquisition of Ei Group plc ("the Ei Group") by Stonegate Pub Company Bidco Limited ('the acquirer') completed and the Ei Group plc entity became a private company, Ei Group Limited. Following acquisition, the Ei Group's debt facilities, excluding the Unique Securitisation, were repaid and replaced with an intercompany loan repayable to the acquirer on equivalent terms to the acquirer's bridging loans (note 18). In addition, the Ei Group became an additional guarantor to the Stonegate Group's debt facilities including the acquirer's revolving credit facility, senior and second lien term loans and the bridging loans. As a result, the Ei Group is reliant on financial support from Stonegate Pub Company Limited. The Ei Group has received a letter of support from Stonegate Pub Company Limited which confirms their ability and that they will provide financial support to the Ei Group for a period of at least 12 months from the date of approval of these financial statements for the period ended 28 December 2019 to assist in meeting the Ei Group's liabilities as and when they fall due, but only to the extent that funds are not otherwise available to the Ei Group to meet such liabilities.

The directors of Ei Group Limited are the same as the directors of Stonegate Pub Company Limited. The directors have reviewed the Stonegate Group's financial resources including cash flow forecasts and covenant compliance tests for a period of at least 12 months from the date of approval of these financial statements.

Since the closure of the estate on 20 March 2020 as a result of the Covid-19 pandemic the Stonegate Group has implemented appropriate measures to reduce the impact on the business, including cost reduction, accessing benefits from the Government support schemes including the Coronavirus Job Retention Scheme, the business rates relief and HMRC deferment of indirect tax, postponement of refurbishments and other capital expenditure projects.

The Stonegate Group's base case forecasts are for a period until September 2021 and are based on the phased re-opening of the estate which began on the 4 July 2020. The cash flow assumptions include a phased increase in sales over the going concern period with the assumption that all sites will be open by the end of September 2020 and trading returned to 90% of 2019 levels by January 2021 and remaining so for the rest of the going concern period.

1. Accounting policies and basis of preparation (Continued)

The phased opening plans to maximize profit on a site by site basis and is ongoing. For a typical managed pub, management believes that revenue in the reopening phase of 50% of 2019 levels can cover site costs and overheads. Revenue of 60-66% of 2019 levels can additionally cover interest expense. Management also has some flexibility to manage maintenance capital expenditure in the short term if required. For Publican Partnerships, management believes revenue of approximately 60% of 2019 levels may be sufficient to cover overhead costs and interest expense.

Current trading since 4 July 2020 is in line with management's base case forecasts. The directors believe that although forecasting is difficult, the phasing in the base case model represents an appropriate approach as social distancing measures are relaxed and people's confidence to visit a venue grows. The forecasts include controllable actions such as a delay in all non-committed capital expenditure, reduction in variable costs including staffing and taking advantage of the 12 month business rates holiday announced for the hospitality sector. In the base case forecast, the Stonegate Group is able to continue trading within its existing facilities and meet covenant compliance tests.

Whilst the Stonegate Group's base case forecasts indicate headroom in borrowing facilities, there is a risk of breaching the Stonegate Group's financial covenants and exceeding debt facilities in the going concern period if sales levels were not to rise in line with base case forecasts or a substantial proportion of the estate was again required to close in response to a potential second wave of the pandemic.

The Stonegate Board has also considered severe but plausible downside scenario reverse stress tests. Under the reverse stress tests sales growth was reduced by 10% compared to the base case and a second scenario was modelled where all venues were required to close again for a period of two months. These downside cases, whilst considered severe, have a significant adverse impact on sales and cash flow and continue to be under review given current market conditions associated with Covid-19. The severe downside scenario associated with sales growth reducing at a 10% lower rate than the base case forecast, if it occurred, highlights that the borrowing facilities would be exceeded and the leverage covenant would be breached as at July 2021. If all venues were required to close again for a period of two months then without additional funding or further mitigating actions both the debt facilities and the leverage covenant would be in breach earlier than July 2021.

The Stonegate Group continue to take actions to minimise the impact of Covid-19 on the business, such as applying for a CBILS government loan, completing a consent solicitation to amend the covenant terms in the Unique securitised debt and completing a refinancing to reduce the interest impact of the bridging facilities. The Stonegate Group have further mitigating actions available which have not been included in their forecasts including cash proceeds from sale of those pubs required by the CMA on acquisition of the Ei Group, further sales of packages of pubs or seeking further covenant relaxations from its lenders if required.

Based on the above, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However as set out above the events and future uncertain effect on trading arising as a result of the Covid-19 outbreak indicate that a material uncertainty exists that may cast significant doubt on the Stonegate Group's ability to continue as a going concern. The financial statements do not contain the adjustments that would result if the Company was unable to continue as a going concern.

2. Segmental analysis

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

Operating segments are aggregated when they have similar economic characteristics and therefore Bermondsey Pub Company, Craft Union Pub Company and Managed Investments have been combined as they represent income earned from the direct operation of pubs albeit through differing trading styles. This results in three reportable segments being Publican Partnerships, Commercial Properties and Managed. The CODM reviews the financial results by segment to underlying EBITDA and this therefore provides the basis for the disclosures below.

2. Segmental analysis (Continued)

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

13 weeks ended 28 December 2019	**Publican Partnerships**	**Commercial Properties**	**Managed**	**Central**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Drink revenue	**87**	**—**	**55**	**—**	**142**
Rent revenue	**28**	**3**	**—**	**—**	**31**
Food revenue	**—**	**—**	**6**	**—**	**6**
Revenue from amusement and other machines	**2**	**—**	**3**	**—**	**5**
Other revenue	**—**	**—**	**1**	**—**	**1**
Revenue	**117**	**3**	**65**	**—**	**185**
Operating costs before depreciation and amortisation	**(47)**	**—**	**(52)**	**(12)**	**(111)**
Underlying EBITDA	**70**	**3**	**13**	**(12)**	**74**
Non-underlying operating costs before depreciation and amortisation					**(1)**
Depreciation and amortisation					**(8)**
Net profit on sale of property					**1**
Movements in valuation of the estate and related assets					**(5)**
Net finance costs					**(36)**
Profit before tax					**25**
Taxation					**(5)**
Profit after tax					**20**

13 weeks ended 29 December 2018	**Publican Partnerships**	**Commercial Properties**	**Managed**	**Central**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Drink revenue	96	—	43	—	139
Rent revenue	29	8	—	—	37
Food revenue	—	—	5	—	5
Revenue from amusement and other machines	2	—	1	—	3
Other revenue	—	—	1	—	1
Revenue	127	8	50	—	185
Operating costs before depreciation and amortisation	(52)	—	(40)	(18)	(110)
Underlying EBITDA	75	8	10	(18)	75
Non-underlying operating costs before depreciation and amortisation					(1)
Depreciation and amortisation					(5)
Net loss on sale of property					(1)
Movements in valuation of the estate and related assets					(3)
Net finance costs					(36)
Profit before tax					29
Taxation					(5)
Profit after tax					24

2. Segmental analysis (Continued)

Year ended 30 September 2019	Publican Partnerships	Commercial Properties	Managed	Central	Total
	£m	£m	£m	£m	£m
Drink revenue	**363**	**—**	**186**	**—**	**549**
Rent revenue	**116**	**19**	**—**	**—**	**135**
Food revenue	**—**	**—**	**20**	**—**	**20**
Revenue from amusement and other machines	**8**	**—**	**8**	**—**	**16**
Other revenue	**—**	**—**	**4**	**—**	**4**
Revenue	**487**	**19**	**218**	**—**	**724**
Operating costs before depreciation and amortisation	**(196)**	**—**	**(176)**	**(76)**	**(448)**
Underlying EBITDA	**291**	**19**	**42**	**(76)**	**276**
Non-underlying operating costs before depreciation and amortisation					**(8)**
Depreciation and amortisation					**(21)**
Net loss on sale of property					**(42)**
Movements in valuation of the estate and related assets					**(20)**
Goodwill impairment					**(232)**
Net finance costs					**(152)**
Loss before tax					**(199)**
Taxation					**(10)**
Loss after tax					**(209)**

3. Non-underlying items

The Group uses adjusted figures as key performance measures in addition to those reported under IFRS, as management believe these measures better reflect the ongoing trading transactions and enable better comparability and accountability for performance for them and other stakeholders. Adjusted figures exclude non-underlying items which comprise exceptional items, non-recurring items and other adjusting items.

Non-underlying items include assignment premiums paid to a publican in order to take the assignment of a lease or to break a lease at any point other than at renewal during the period of our realignment of properties, professional fees paid in relation to the proposed acquisition of the Group, the profit/loss on sale of property, the movements in valuation of the estate and related assets, goodwill impairment, costs incurred repaying debt ahead of maturity and refinancing.

3. Non-underlying items (Continued)

The adjusted figures are derived from the reported figures under IFRS as follows:

	Unaudited			Unaudited			Audited		
	13 weeks ended 28 December 2019			13 weeks ended 29 December 2018			Year ended 30 September 2019		
	Underlying items	Non-underlying items	Total	Underlying items	Non-underlying items	Total	Underlying items	Non-underlying items	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Revenue	**185**	**—**	**185**	185	—	185	724	—	724
Operating costs before depreciation and amortisation	**(111)**	**(1)**	**(112)**	(110)	(1)	(111)	(448)	(8)	(456)
EBITDA	**74**	**(1)**	**73**	75	(1)	74	276	(8)	268
Depreciation and amortisation	**(8)**	**—**	**(8)**	(5)	—	(5)	(21)	—	(21)
Operating profit/(loss)	**66**	**(1)**	**65**	70	(1)	69	255	(8)	247
Profit/(loss) on sale of property	**—**	**1**	**1**	—	—	—	—	(7)	(7)
Goodwill allocated to disposals	**—**	**—**	**—**	—	(1)	(1)	—	(35)	(35)
Net profit/(loss) on sale of property	**—**	**1**	**1**	—	(1)	(1)	—	(42)	(42)
Movements in valuation of the estate and related assets	**—**	**(5)**	**(5)**	—	(3)	(3)	—	(20)	(20)
Goodwill impairment	**—**	**—**	**—**	—	—	—	—	(232)	(232)
Finance costs	**(35)**	**(1)**	**(36)**	(36)	—	(36)	(137)	(15)	(152)
Profit/(loss) before tax	**31**	**(6)**	**25**	34	(5)	29	118	(317)	(199)
Taxation	**(6)**	**1**	**(5)**	(6)	1	(5)	(21)	11	(10)
Profit/(loss) after tax attributable to members of the Parent Company	**25**	**(5)**	**20**	28	(4)	24	97	(306)	(209)
Earnings per share									
Underlying	**5.8p**			6.0p			21.6p		
Underlying diluted	**5.7p**			5.9p			21.6p		

Those items identified as non-underlying are explained further below:

a) Operating costs before depreciation and amortisation

A charge of £1 million (13 weeks ended 29 December 2018: £1 million, year ended 30 September 2019: £8 million) has been incurred in respect of assignment premiums paid and professional fees incurred in respect of the proposed acquisition of the Group by Stonegate.

During the period of our strategic evolution, the £1 million (13 weeks ended 29 December 2018: £1 million, year ended 30 September 2019: £3 million) of assignment premiums paid to a publican in order to take the assignment of a lease or to break a lease at any point other than at renewal would be treated as non-underlying. These costs have been incurred following the strategic review and the introduction of the Pubs Code in July 2016 and are not considered to be part of the underlying business as they are not expected to recur once the realignment of properties has been completed. This treatment is expected to

3. Non-underlying items (Continued)

apply for five years following the implementation of the Pubs Code which will allow for a full cycle of rent reviews over which time the Group will assess the optimal location for each asset which may include the payment of an assignment premium to allow the Group access to the property.

In the year to 30 September 2019, £5 million of costs had been committed and incurred in relation to the proposed acquisition of the Group. These primarily related to adviser, legal and professional fees and were allocated to non-underlying as they were one-off in nature.

b) Net profit/(loss) on sale of property

	Unaudited 13 weeks ended 28 December 2019	Unaudited 13 weeks ended 29 December 2018	Audited Year ended 30 September 2019
	£m	£m	£m
Profit on sale of property, plant and equipment	**1**	—	4
Loss on sale of property, plant and equipment	**—**	—	(5)
Net profit/(loss) on sale of property	**1**	—	(1)
Profit on sale of investment property	**—**	—	24
Loss on sale of investment property	**—**	—	(30)
Net loss on sale of investment property	**—**	—	(6)
Net profit/(loss) on sale of property before goodwill allocation	**1**	—	(7)
Goodwill allocated to disposals	**—**	(1)	(35)
Net profit/(loss) on sale of property	**1**	(1)	(42)

During the period 14 properties (13 weeks ended 29 December 2018: 18 properties, year ended 30 September 2019: 129 properties) and various other plots of land with a book value of £4 million (13 weeks ended 29 December 2018: £4 million, year ended 30 September 2019: £44 million) were disposed of generating gross proceeds of £5 million (13 weeks ended 29 December 2018: £4 million, year ended 30 September 2019: £50 million) which, after taking account of disposal costs resulted in an overall profit of £1 million (13 weeks ended 29 December 2018: £nil, year ended 30 September 2019: loss of £1 million). In accordance with IAS 36 £nil (13 weeks ended 29 December 2018: £1 million, year ended 30 September 2019: £7 million) of goodwill was allocated to these disposals.

In the prior year, on 14 March 2019 the Group completed on the disposal of a portfolio of 348 properties and their associated non-licensed premises in a transaction to a subsidiary of Davidson Kempner Capital Management LP. Following this, and as part of the original agreement, a further six leasehold properties were also disposed to this purchaser during August and September 2019. All properties were trading within the commercial properties segment. The total net cash proceeds from the sale of £341 million were predominantly used to reduce debt. The loss on disposal of the transaction of £6 million includes fees of £4 million and a provision for future capital payments of £2 million. In accordance with IAS 36 £28 million of goodwill was allocated to these disposals.

3. Non-underlying items (Continued)

c) Movements in valuation of the estate and related assets

	Unaudited 13 weeks ended 28 December 2019	Unaudited 13 weeks ended 29 December 2018	Audited Year ended 30 September 2019
	£m	£m	£m
Movement in property, plant and equipment from revaluation of the estate (see note 8)	—	—	(14)
Movement in investment property from revaluation of the estate (see note 9)	—	—	(1)
	—	—	(15)
Revaluation of investment property on transfer to non-current assets held for sale (see note 9)	—	(1)	—
Revaluation of operating leases on transfer to non-current assets held for sale (see note 7)	—	1	1
Revaluation of property, plant and equipment on transfer to non-current assets held for sale (see note 8)	**(5)**	(3)	(5)
Revaluation of property, plant and equipment on transfer to investment property (see note 8)	—	—	(1)
	(5)	(3)	(20)

In respect of assets revalued on transfer to non-current assets held for sale, a total net write-down of £6 million (13 weeks ended 29 December 2018: £3 million, year ended 30 September 2019: £4 million) has been recorded. Of this net write-down, £1 million (13 weeks ended 29 December 2018: £nil, year ended 30 September 2019: £nil) has been debited to other comprehensive income and £5 million (13 weeks ended 29 December 2018: £3 million, year ended 30 September 2019: £4 million) has been charged to the income statement as a non-underlying item. At the period end, there are 93 properties (29 December 2018: 462 properties, 30 September 2019: 50 properties) included within non-current assets held for sale which have been recorded at the lower of carrying value on transfer to non-current assets held for sale, as assessed at the time of transfer, and fair value less costs to dispose.

d) Finance costs

During the 13 weeks ended 28 December 2019 £1 million (13 weeks ended 29 December 2018: £nil, year ended 30 September 2019: £14 million) of redemption costs have been incurred following the full prepayment of the Class A3 Notes and a part prepayment of Class A4 Notes within the Unique securitisation using proceeds from the sale of commercial properties. These costs have been fully paid in the period.

In the prior period following a tender offer for the convertible bonds that redeemed 98% of the bonds, on 27 September 2018 the Group issued an optional redemption notice to redeem the remaining £1.6 million of convertible bonds at par. This was completed during the 13 weeks ended 29 December 2018.

Also, during the prior year £1 million of unamortised fees relating to the term loan have been recognised in non-underlying finance costs following the extinguishment of this financial liability. There was no cash impact in the year from this write off.

4. Finance costs

	Unaudited 13 weeks ended 28 December 2019	Unaudited 13 weeks ended 29 December 2018	Audited Year ended 30 September 2019
	£m	**£m**	**£m**
Bank borrowings	**—**	1	5
Corporate bonds/securitised bonds	**30**	35	132
Other interest payable and finance costs	**1**	—	1
Interest on leases	**4**	—	—
Interest receivable	**—**	—	(1)
Total underlying finance costs	**35**	36	137
Non-underlying finance costs:			
Other interest payable and finance costs	**1**	—	15
Non-underlying finance costs	**1**	—	15
Total net finance costs	**36**	36	152

5. Taxation

The total tax charge of £5 million (13 weeks ended 29 December 2018: £5 million, year ended 30 September 2019: £10 million) represents an underlying charge of £6 million (13 weeks ended 29 December 2018: £6 million, year ended 30 September 2019: £21 million) and a non-underlying credit of £1 million (13 weeks ended 29 December 2018: £1 million, year ended 30 September 2019: £11 million).

a) Underlying tax

The underlying tax charge of £6 million (13 weeks ended 29 December 2018: £6 million, year ended 30 September 2019: £21 million) equates to an effective tax rate of 17.5% (13 weeks ended 29 December 2018: 17.5%, year ended 30 September 2019: 17.8%). The effective tax rate does not include the effect of non-underlying items.

b) Non-underlying tax

The items below are classified as non-underlying due to their size and either because they do not relate to any income or expense recognised in the income statement in the same period or because they relate to non-underlying items.

A deferred tax liability has been recognised on the balance sheet relating to the estate. On transition to IFRS, the Group elected to apply IFRS 3 retrospectively to acquisitions from 1 January 1999 which led to an increase in goodwill in respect of this deferred tax of £330 million. As this pre-acquisition liability changes due to capital gains indexation relief and changes in the rate of UK tax, the movement is recognised in the income statement.

The current rate of corporation tax is 19%, however the Government announced in March 2016 a reduction in the rate of corporation tax to 17% by 1 April 2020 which was enacted during a prior year. Deferred taxation has been calculated based on the current enacted rate of 17% (13 weeks ended 29 December 2018: 17%).

A deferred tax credit of £1 million (13 weeks ended 29 December 2018: £1 million, year ended 30 September 2019: £3 million) relating to the movements in valuation of the estate and related assets and net profit/(loss) on disposal of property has been recognised in the income statement.

A non-underlying tax credit of £nil (13 weeks ended 29 December 2018: £nil, year ended 30 September 2019: £8 million) has been recognised in relation to all other non-underlying items in the income statement. The total non-underlying tax credit is therefore £1 million (13 weeks ended 29 December 2018: £1 million, year ended 30 September 2019: £11 million)

6. Earnings/(loss) per share

The calculation of basic earnings per share is based on the profit attributable to Ordinary Shareholders for the period divided by the weighted average number of equity shares in issue during the period after excluding shares held by trusts relating to employee share options and shares held in treasury.

6. Earnings/(loss) per share (Continued)

Underlying earnings per share, which the directors believe reflects the underlying performance of the Group, is based on profit attributable to Ordinary Shareholders adjusted for the effects of non-underlying items net of tax, divided by the weighted average number of equity shares in issue during the period after excluding shares held by trusts relating to employee share options and shares held in treasury.

The dilution adjustments for share options and the convertible bonds are reviewed independently and where they are anti-dilutive to the calculation of diluted earnings per share they are not included in the calculation of either diluted or underlying diluted earnings per share.

For the 13 weeks ended 28 December 2019, the adjustment for share options is assessed as being dilutive (13 weeks ended 29 December 2018: dilutive, year ended 30 September 2019: anti-dilutive) which has resulted in an adjustment to the weighted average number of equity shares in issue during the period of 7.0 million shares (13 weeks ended 29 December 2018: 5.7 million shares, year ended 30 September 2019: nil shares).

A pro-rated number of shares has been taken into account in the assessment of dilution for the prior period following redemption of the remaining 2% of the nominal value of convertible bonds. For the 13 weeks ended 29 December 2018, the adjustment for the convertible bonds is assessed as being dilutive which has resulted in an adjustment to profit in the calculation of diluted earnings per share of £nil for the post tax interest cost associated with the convertible bonds and an adjustment to the weighted average number of equity shares in issue during the period of 0.2 million shares.

	Unaudited 13 weeks ended 28 December 2019		Unaudited 13 weeks ended 29 December 2018		Audited Year ended 30 September 2019	
	Earnings	**Per share amount**	**Earnings**	**Per share amount**	**(Loss)/ earnings**	**Per share amount**
	£m	**p**	**£m**	**p**	**£m**	**p**
Basic earnings/(loss) per share	**20.0**	**4.6**	24.4	5.3	(208.3)	(46.2)
Diluted earnings/(loss) per share	**20.0**	**4.5**	24.4	5.2	(208.3)	(46.2)
Underlying earnings per share	**25.3**	**5.8**	27.9	6.0	97.5	21.6
Underlying diluted earnings per share	**25.3**	**5.7**	27.9	5.9	97.5	21.6

	No. of shares	**No. of shares**	**No. of shares**
	m	**m**	**m**
Weighted average number of shares	**436.6**	464.2	450.6
Dilutive share options	**7.0**	5.7	—
Dilutive convertible bonds shares	**—**	0.2	—
Diluted weighted average number of shares	**443.6**	470.1	450.6

7. Goodwill and intangible assets: operating lease premiums

	Unaudited	
	Goodwill	**Intangible assets**
	£m	**£m**
Cost		
As previously reported at 30 September 2019	37	12
Adoption of IFRS 16	—	(12)
At 1 October 2019	37	—
At 28 December 2019	**37**	**—**
Amortisation		
At 1 October 2019	—	4
Adoption of IFRS 16	—	(4)
At 28 December 2019	**—**	**—**
Net book value at 28 December 2019	**37**	**—**

7. Goodwill and intangible assets: operating lease premiums (Continued)

	Unaudited	
	Goodwill	Intangible assets
	£m	£m
Cost		
At 1 October 2018	304	14
Revaluation on transfer to non-current assets held for sale:		
—Recognised in the income statement	—	1
Transfer to non-current assets held for sale	—	(1)
Allocated to disposals	(1)	—
At 29 December 2018	303	14
Amortisation		
At 1 October 2018	—	5
At 29 December 2018	—	5
Net book value at 29 December 2018	303	9

	Audited	
	Goodwill	Intangible assets
	£m	£m
Cost		
At 1 October 2018	304	14
Revaluation on transfer to non-current assets held for sale:		
—Recognised in the income statement	—	1
Transfer to non-current assets held for sale	—	(3)
Allocated to disposals	(35)	—
Impairment	(232)	—
At 30 September 2019	37	12
Amortisation		
At 1 October 2018	—	5
Transfer to non-current assets held for sale	—	(1)
At 30 September 2019	—	4
Net book value at 30 September 2019	37	8

8. Property, plant and equipment

	Unaudited				
	Licensed land and buildings	Landlords' fixtures and fittings	Other assets	Right of use asset	Total
	£m	£m	£m	£m	£m
Cost or valuation					
As previously reported at 30 September 2019	2,926	315	49	—	3,290
Adoption of IFRS 16	(62)	(9)	—	265	194
At 1 October 2019	2,864	306	49	265	3,484
Additions	9	7	3	—	19
Revaluation of assets on transfer to investment property:					
—Recognised in the statement of comprehensive income	(4)	—	—	—	(4)
Net transfer to investment property	(16)	(1)	—	—	(17)
Revaluation of assets on transfer to non-current assets held for sale:					
—Recognised in the statement of comprehensive income	(1)	—	—	—	(1)
—Recognised in the income statement	(5)	—	—	—	(5)
Net transfer to non-current assets held for sale	(13)	(4)	—	—	(17)
Disposals	—	(3)	—	—	(3)
At 28 December 2019	**2,834**	**305**	**52**	**265**	**3,456**
Depreciation					
As previously reported at 30 September 2019	18	70	17	—	105
Adoption of IFRS 16	—	(1)	—	1	—
At 1 October 2019	18	69	17	1	105
Charge for the period	1	4	1	2	8
Net transfer to non-current assets held for sale	—	(1)	—	—	(1)
At 28 December 2019	**19**	**72**	**18**	**3**	**112**
Net book value at 28 December 2019	**2,815**	**233**	**34**	**262***	**3,344**

* The net book value of the IFRS 16 right of use asset is split as follows:

	£m
Licensed land and buildings	260
Cars	2
	262

8. Property, plant and equipment (Continued)

	Unaudited			
	Licensed land and buildings	Landlords' fixtures and fittings	Other assets	Total
	£m	£m	£m	£m
Cost or valuation				
At 1 October 2018	2,984	297	47	3,328
Additions	12	5	1	18
Net transfer to investment property				
Revaluation of assets on transfer to non-current assets held for sale:				
—Recognised in the income statement	(3)	—	—	(3)
Net transfer to non-current assets held for sale	(22)	(5)	—	(27)
Disposals	—	(1)	—	(1)
At 29 December 2018	2,971	296	48	3,315
Depreciation				
At 1 October 2018	17	65	18	100
Charge for the period	—	4	1	5
Net transfer to non-current assets held for sale	—	(1)	—	(1)
At 29 December 2018	17	68	19	104
Net book value at 29 December 2018	2,954	228	29	3,211

	Audited			
	Licensed land and buildings	Landlords' fixtures and fittings	Other assets	Total
	£m	£m	£m	£m
Cost or valuation				
At 1 October 2018	2,984	297	47	3,328
Additions	45	44	8	97
Revaluation:				
—Recognised in the statement of comprehensive income	16	—	—	16
—Recognised in the income statement	(14)	—	—	(14)
Revaluation on transfer to investment property:				
—Recognised in the statement of comprehensive income	(5)	—	—	(5)
—Recognised in the income statement	(1)	—	—	(1)
Net transfer to investment property	(56)	(5)	—	(61)
Revaluation of assets on transfer to non-current assets held for sale:				
—Recognised in the income statement	(5)	—	—	(5)
Net transfer to non-current assets held for sale	(38)	(8)	—	(46)
Disposals	—	(13)	(6)	(19)
At 30 September 2019	2,926	315	49	3,290
Depreciation				
At 1 October 2018	17	65	18	100
Revaluation on transfer to investment property	—	(1)	—	(1)
Charge for the year	1	16	4	21
Net transfer to non-current assets held for sale	—	(2)	—	(2)
Disposals	—	(8)	(5)	(13)
At 30 September 2019	18	70	17	105
Net book value at 30 September 2019	2,908	245	32	3,185

9. Investment property

	Unaudited 28 December 2019	Unaudited 29 December 2018	Audited 30 September 2019
	£m	£m	£m
As previously reported at 30 September	**81**	368	368
Adoption of IFRS 16	**9**	—	—
At 1 October	**90**	368	368
Net transfer from property, plant and equipment	**17**	—	60
Revaluation	**—**	(1)	(1)
Net transfers to non-current assets held for sale	**—**	(345)	(346)
At end of period	**107**	22	81

10. Non-current assets held for sale

	Unaudited 28 December 2019	Unaudited 29 December 2018	Audited 30 September 2019
	£m	£m	£m
As previously reported at 30 September	**15**	13	13
Adoption of IFRS 16	**12**	—	—
At 1 October	**27**	13	13
Net transfer from property, plant and equipment	**16**	26	44
Net transfer from investment property	**—**	345	346
Net transfer from intangible asset: operating lease premiums	**—**	1	2
Write down to fair value less costs to dispose	**—**	—	(1)
Disposals	**(4)**	(3)	(389)
At end of period	**39**	382	15
Representing:			
Property, plant and equipment	**37**	36	13
Investment property	**2**	346	2
	39	382	15

When assets are identified for disposal and meet the criteria within IFRS 5 they are reclassified to non-current assets held for sale and are held at the lower of carrying value on transfer to non-current assets held for sale, as assessed at the time of transfer, and fair value less costs to dispose.

At 28 December 2019 non-current assets held for sale includes 93 properties (29 December 2018: 462 properties, 30 September 2019: 50 properties) which are expected to be sold within the next year.

11. Trade and other receivables

	Unaudited 28 December 2019	Unaudited 29 December 2018	Audited 30 September 2019
	£m	£m	£m
Trade receivables due in more than one year	**3**	3	3
Trade receivables due in less than one year	**41**	47	32
Prepayments and accrued income	**15**	17	13
Other receivables	**2**	3	3
	58	67	48

12. Trade and other payables

	Unaudited 28 December 2019	Unaudited 29 December 2018	Audited 30 September 2019
	£m	£m	£m
Trade payables	**38**	36	47
Accruals and deferred income	**103**	116	112
Other payables	**40**	48	37
	181	200	196

At 28 December 2019 the value of deposits held by the Group in other payables is £26 million (29 December 2018: £32 million, 30 September 2019: £26 million).

13. Financial liabilities

	Unaudited 28 December 2019	Unaudited 29 December 2018	Audited 30 September 2019
	£m	£m	£m
Current			
Securitised bonds	**19**	86	19
Share buyback commitment	**—**	9	—
Lease creditor	**4**	—	—
	23	95	19
Non-current			
Bank borrowings	**19**	152	(1)
Corporate bonds	**1,168**	1,168	1,168
Securitised bonds	**667**	801	675
Lease creditor	**279**	3	3
	2,133	2,124	1,845
	2,156	2,219	1,864

All financial assets and liabilities are carried at amortised cost. The fair values of all financial instruments are either equal to, or not materially different from their book values, with the exception of corporate bonds and securitised bonds. The book values and fair values of these financial instruments are summarised below:

	Unaudited 28 December 2019		Unaudited 29 December 2018		Audited 30 September 2019	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
	£m	£m	£m	£m	£m	£m
Corporate bonds	**1,168**	**1,204**	1,168	1,187	1,168	1,240
Securitised bonds	**686**	**796**	887	934	694	792

14. Additional cash flow information

a) Reconciliation of net cash flow to movement in net debt

	Unaudited 13 weeks ended 28 December 2019	Unaudited 13 weeks ended 29 December 2018	Audited Year ended 30 September 2019
	£m	£m	£m
Increase/(decrease) in cash in the period	**—**	7	(2)
Cash (inflow)/outflow from change in debt	**(11)**	(17)	330
Debt restructuring costs paid	**—**	2	2
Change in net debt resulting from cash flows	**(11)**	(8)	330
Adoption of IFRS 16	**(281)**	—	—
Debt restructuring paid in the current period relating to prior period change in net debt	**—**	(2)	(2)
Amortisation of issue costs and discounts/premiums on long-term loans	**—**	(1)	(6)
Amortisation of the fair value of adjustments of securitised bonds	**—**	—	4
Change in commitment for share buybacks	**—**	(9)	—
Movement in net debt in the period	**(292)**	(20)	326
Net debt at start of period	**(1,708)**	(2,034)	(2,034)
Net debt at end of period	**(2,000)**	(2,054)	(1,708)

b) Analysis of net debt

	Unaudited 28 December 2019	Unaudited 29 December 2018	Audited 30 September 2019
	£m	£m	£m
Bank borrowings	**(20)**	(155)	—
Corporate bonds	**(1,175)**	(1,175)	(1,175)
Securitised bonds	**(683)**	(883)	(691)
Gross debt	**(1,878)**	(2,213)	(1,866)
Cash	**156**	165	156
Underlying net debt	**(1,722)**	(2,048)	(1,710)
Capitalised debt issue costs	**14**	19	14
Fair value adjustments on acquisition of bonds	**(9)**	(13)	(9)
Lease liabilities	**(283)**	(3)	(3)
Commitment for share buybacks	**—**	(9)	—
Net debt	**(2,000)**	(2,054)	(1,708)
Balance sheet:			
Current financial liabilities	**(23)**	(95)	(19)
Non-current financial liabilities	**(2,133)**	(2,124)	(1,845)
Cash	**156**	165	156
Net debt	**(2,000)**	(2,054)	(1,708)

Underlying net debt represents amounts repayable to banks and other lenders net of cash retained in the business. Cash includes £111 million (29 December 2018: £115 million, 30 September 2019: £111 million) held in the securitised Unique sub-group, of which £65 million (29 December 2018: £65 million, 30 September 2019: £65 million) is held in a securitised reserve account.

15. Related party transactions

There have been no related party transactions requiring disclosure during the period or prior periods.

16. Commitments for the purchase of property, plant and equipment

At 31 March 2019, the Group had entered into contractual commitments to purchase £8 million (29 December 2018: £10 million, 30 September 2019: £7 million) of property, plant and equipment.

17. Seasonality of operations

The business is subject to seasonal fluctuations dependant on public holidays and the weather.

18. Post balance sheet events

On 3 March 2020 the acquisition of the Company by Stonegate Pub Company Bidco Limited completed and on the same day Company reregistered as a private company. Contingent professional fees incurred in relation to this transaction of £13 million became payable.

Further to this transaction on 4 March 2020, £525 million of corporate bonds were repaid at par and on 6 March 2020 a further £500 million of corporate bonds were repaid at par. On 11 March the drawn balance on the Revolving Credit Facility was repaid and the facility was cancelled and then on 12 March 2020 the £150 million unsecured corporate bond was repaid at 107.1% of its par value. On committing to repay, all unamortised fees in relation to these liabilities are charged to the income statement. These repayments were funded by way of an intercompany loan from Stonegate Pub Company Bidco Limited on equivalent terms to the acquirers bridging loans, which range from 5.25% to 9.75% above LIBOR and for a period of five to eight years. In addition, the Ei Group became an additional guarantor to the Stonegate Group's debt facilities including the acquirer's revolving credit facility, senior and second lien term loans and the bridging loans.

On 20 March 2020 the UK Government enforced the closure of all pubs as part of the efforts to control the Covid-19 pandemic. Given the rapidly evolving nature of the situation it is difficult to quantify the impact Covid-19 could have on the financial performance of the Group, however, it is expected there will be a significant reduction in performance for the next 12 months. The Group has been working proactively and continues to do so to protect cash flow through a number of actions including suspension of the capital programme and reduction of costs across the business.

The managed business has seen no sales during the period of lockdown, however 98% of staff have been furloughed and with the help of the business rates relief, costs have been minimised during the same period. The Publican Partnerships and Commercial Properties segments have been impacted to a lesser degree as although leased and tenanted drink income has been impacted, rents have continued to accrue, although collection has been deferred, with £5 million of rent credited to those publicans who did not receive a government grant. Rent concessions have been made for July and August of 75% and 50% respectively to support our publicans and on 4 July 2020 c.80% of the Company's pubs reopened. Sales are expected to be lower than budget in the short-term however we expect to gradually see them return to more normalised levels as consumer confidence increases and certain safety measures are relaxed. The directors are also mindful that a second lockdown is a possibility and have ensured that learnings from the first could be applied to any future closures to mitigate cost.

Whilst the reopening of the country following this period of lockdown remains in the early stages it is noted that the speed of the recovery is uncertain and therefore there is a risk that there could be a material adverse change in the value of some assets on the balance sheet, for example goodwill which totals £37 million, property, plant and equipment which totals £3,344 million and investment property which totals £107 million as a result of future impairment. These constitute non-adjusting events in accordance with the applicable accounting standard and any change in value will be reflected in the following period's financial statements.

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

19. Alternative Performance Measures

Like-for-like Publican Partnerships net income

For the 13 weeks ended 28 December 2019 Publican Partnerships like-for-like net income of £70 million (13 weeks ended 29 December 2018: £76 million) represents underlying EBITDA for the Publican Partnerships business of £70 million (13 weeks ended 29 December 2018: £75 million) excluding £nil (13 weeks ended 29 December 2018: £nil) of income in respect of disposals and £nil of net income (13 weeks ended 29 December 2018: £1 million) relating to other non-like-for-like net income.

Like-for-like Commercial Properties net income

For the 13 weeks ended 28 December 2019 Commercial Properties like-for-like net income of £3 million (13 weeks ended 29 December 2018: £8 million) represents underlying EBITDA for the Commercial Properties business of £3 million (13 weeks ended 29 December 2018: £8 million) excluding £nil (13 weeks ended 29 December 2018: £nil) of income in respect of disposals and £nil of net income relating to other non-like-for-like net income (13 weeks ended 29 December 2018: £nil).

Managed like-for-like sales

For the 13 weeks ended 28 December 2019 Managed like-for-like sales represents underlying revenue from the Managed estate of £45 million (13 weeks ended 29 December 2018: £43 million) excluding underlying revenue from those pubs that have not traded during both the 13 weeks ended 28 December 2019 and the 13 weeks ended 28 December 2018 post investment in their managed format of £20 million (13 weeks ended 29 December 2018: £7 million).

Financial Statements as of and

for the year ended 30 September 2019

Contents

Statement of directors' responsibilities in relation to the Group and Company financial statements

The directors are responsible for preparing the Annual Report, the directors' remuneration report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Company financial statements in accordance with IFRSs as adopted by the EU. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for preparing the directors' report (including the corporate governance report) and the directors' remuneration report in accordance with the Companies Act 2006 and applicable regulations, including the Listing Rules and the Disclosure Guidance and Transparency Rules.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are disclosed on page 45, confirms that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and result of the Group; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

The directors are responsible for preparing the annual report in accordance with applicable law and regulations. Having taken advice from the Audit Committee, the Board considers the report and accounts, taken as a whole, to be fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

On behalf of the Board

W S Townsend
Chief Executive Officer

N R Smith
Chief Financial Officer

18 November 2019

Independent auditor's report
to the members of Ei Group plc

Opinion

In our opinion:

- Ei Group plc's ("Ei Group") group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 September 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Ei Group plc which comprise:

Group	Parent Company
Group balance sheet as at 30 September 2019	Company balance sheet as at 30 September 2019
Group income statement for the year then ended	Company statement of changes in equity for the year then ended
Group statement of comprehensive income for the year then ended	Company cash flow for the year then ended
Group statement of changes in equity for the year then ended	Related notes 1 to 34 to the financial statements including a summary of significant accounting policies
Group cash flow statement for the year then ended	
Related notes 1 to 34 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on page 37 to 42 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 43 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 43 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements

Independent auditor's report (Continued)
to the members of Ei Group plc

- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 43 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Going concern • Goodwill impairment • Property valuation • Parent Company - Impairment of cost of investments
Audit scope	• We performed an audit of the complete financial information of three (2018: four) full scope components, performed specific scope procedures in respect of five components (2018: three) and performed other procedures in respect of 20 components (2018: 20). • The components where we performed full or specific scope audit procedures accounted for 99% of underlying profit before tax, 97% of revenue and 99% of total assets. • The components subject to specified procedures covered 1% of underlying profit before tax, 3% of revenue and 1% of total assets.
Materiality	• Overall group materiality of £5.9m represents 5% of underlying profit before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, we do not provide a separate opinion on these matters.

Risk

Risk of inappropriate assessment and disclosure of going concern, viability and covenant compliance given the proposed acquisition of the Group.

Refer to the Strategic report (page 43); the Audit Committee Report (from page 57); and Note 22 of the Consolidated Financial Statements (from page 118)

The Group has to comply with a number of covenants in debt facilities and the rules of the Unique securitisation. The going concern basis of preparation is dependent upon the availability of such debt facilities and related covenant tests being met for a period of at least 12 months from the date of approving the financial statements.

Furthermore, as a result of the cash offer for the shares of Ei Group plc by Stonegate Pub Company (Stonegate), which was approved by Ei Group plc's shareholders on 12 September 2019 and is subject to Competition and Markets Authority (CMA) approval, the risk in regard to going concern has increased. As discussed in the Strategic report (page 43), this is because, if approved by the CMA, the takeover is expected to complete within the going concern review period and will trigger the change in control clauses in certain of the Group's debt facilities resulting in the need for these to be repaid immediately. In addition, the existing Ei Group plc directors are expected to step down on completion of the acquisition. Consequently, there is uncertainty surrounding possible changes to the ongoing operation of the business, future financing arrangements and distributions to shareholders that the new board may make.

Our response to the risk

We inspected management's going concern assessment including stress testing and sensitivity analysis to support the application of the going concern assumption for the ongoing business. This included recalculating and stress testing covenant compliance throughout the review period.

We inspected the Group's debt facility agreements for evidence of change of control clauses. In addition, for the Unique securitisation trust deeds, which do not include change of control clauses, we obtained management's correspondence from their lawyers confirming there would be no requirement to repay this debt.

We obtained the signed financing agreements from the acquirer. We agreed the funding within these agreements to management's model prepared to demonstrate that the acquirer had sufficient funding in place to cover the cash acquisition and related costs as well as the repayment of the Group's facilities that include change of control clauses.

We recalculated management's cash flow forecasts and covenant compliance tests for the enlarged group including sensitivity analysis of future cash flows from operating activities.

We read the information in the public domain in respect of the acquirer's future intentions for the business. We obtained a direct confirmation from the acquirer that these remain an accurate representation of Stonegate's intentions and inspected the representation letter provided by the acquirer to the current directors in respect of the future funding, operations and profitability of the Group post acquisition.

We considered management's disclosures in respect of both going concern and viability to ensure appropriate explanation of the circumstances was given.

Key observations communicated to the Audit Committee

On a standalone basis the forecasts support the Group's ability to continue as a going concern for at least 12 months from signing the financial statements.

On the assumption the acquisition completes, the acquirer has sufficient funding in place to cover the cash acquisition, associated costs and would be able to repay the Group's debt facilities that would be withdrawn on a change of control. Management's cash flow forecasts for the enlarged group support the Group's ability to continue as a going concern for at least 12 months from signing the financial statements, taking into account assurances received from the acquirer that they have no intentions to make material changes that would adversely impact the ongoing group.

We consider management's disclosures in the Annual Report and Accounts to be appropriate in regards to the assumptions over going concern (being that the assessment is prepared on the assumption that operation of the Group, its distributions to shareholders and its financing arrangements under new ownership would be no less favourable than is currently envisaged on a standalone basis).

We consider management's disclosures in the Annual Report and Accounts to be appropriate in regards to the assumptions upon which the viability assessment has been made (being the new board would continue to operate and finance the business and make distributions to shareholders with no material adverse impact to the Group's forecasts).

Risk

Failure to impair goodwill in respect of the Ei Publican Partnerships, Ei Commercial Properties and Ei Managed (being Bermondsey and Managed Investments) segments through inappropriate impairment model assumptions in respect of discount rate, underlying short-term forecasts or long-term growth.

(2019: £37m; 2018: £304m)

Refer to the Audit Committee Report (from page 57); Accounting policies (from page 90); and Note 12 of the Consolidated Financial Statements (from page 105)

As discussed in note 4, the Group has five Cash Generating Units (CGUs) (2018: five). The Group is required to allocate goodwill between CGUs and test impairment for each CGU.

As a result of further information in the second half of the year including the Stonegate Offer to acquire the Group, management has revised the discount rate and growth rate used in the impairment test. This has resulted in a goodwill impairment of £232m being recorded resulting in a total carrying value of £37m (2018: £304m). Of the £37m remaining balance of goodwill, £nil relates to Ei Publican Partnerships (2018: £248m), £7m (2018: £31m) to Ei Commercial Properties and £30m (2018: £25m) to the three Ei Managed segments. The impairment test is sensitive to the key assumptions of discount rate, the level of forecast cash flows and the long-term growth rate as described in note 12.

Our response to the risk

Goodwill was included wholly within that part of the audit subject to full scope procedures.

We identified, documented and confirmed our understanding of the controls operated by the Group surrounding the goodwill allocation and impairment process.

We confirmed that the operating segments represented the appropriate level to perform the goodwill impairment review and that no further sub-analysis was required.

We ensured that management had appropriately determined the carrying amount of goodwill for each CGU and tested the basis for any movement of goodwill between segments.

We checked the discounted cash flow workings to ensure they were clerically accurate.

We examined the cash flow forecasts by testing the underlying models, which included an analysis of the underlying assumptions, and by reference to the accuracy of previous forecasts and underlying assumptions. We also confirmed the forecasts were consistent with the Board approved forecasts and those used in the going concern and viability assessments.

The key assumptions of the discount rate and long-term growth rate underlying the goodwill impairment test were addressed through a combination of testing the Group's detailed calculations, benchmarking the assumptions used against comparator companies and external forecasts and, in respect of the discount rate assumption, an independent assessment by our valuation specialists based on general market indicators.

We recalculated the goodwill impairment to confirm the amount and allocation to CGUs was appropriate.

For the remaining goodwill, we have considered if there were any further indicators of impairment.

We ensured the appropriate disclosures were included in the Annual Report and Accounts.

Key observations communicated to the Audit Committee

Following review and challenge, management have recorded an impairment of goodwill of £232m resulting in goodwill of £37m remaining as at 30 September 2019.

We recalculated the goodwill impairment to confirm the amount and allocation to each CGU was appropriate. For the remaining goodwill no further indicators of impairment were identified.

A pre-tax discount rate of 8.5% has been applied in the impairment tests for all segments and is within our acceptable range.

The reduction in the assumptions for long-term growth rates are reflective of external forecasts.

The short-term forecasts are consistent with those approved by the Board and management have demonstrated that their forecasting process is historically accurate.

Risk

Over valuation of property assets

1. **Pub estate – through either higher multiples than the market and/or fair maintainable trade (FMT) in excess of achievable income.**
2. **Investment property – through either higher multiples than the market and/or overstatement of estimated rental value (ERV).**

(2019: Property, Plant and Equipment £3,185m; Investment Property £81m; 2018: Property, Plant and Equipment £3,228m; Investment Property £368m)

Refer to the Audit Committee Report (from page 57); Accounting policies (from page 90); and Note 17 of the Consolidated Financial Statements (from page 111)

This is the largest estimate within the financial statements, prepared on an asset by asset basis for 3,783 individual assets. The valuation is performed by a combination of internal and external appropriately qualified valuers (as described in note 17). The valuation has been performed by third party independent valuers for 96% of the properties by value (2018: 95%).

The risk is the overvaluation of the Group's property assets as a result of:

- The use of valuation multiples above normal market ranges; and/or
- Where FMT per outlet for the pub estate / ERV for the investment property estate differs from actual income outside the expected range dependant on the lease profile of the asset.

Our response to the risk

The entire property estate valuation was subject to full scope procedures.

We identified, documented and confirmed our understanding of the controls operated by the Group over the valuation process.

We inspected management's assessment of the estate valuation, in particular, their considerations and conclusions with regard to the appropriateness of the values determined by the external valuers.

Together with our internal property valuation specialists, we met with the Group's internal and external valuers in order to understand market trends, the overall estate valuation movement as well as specific trends within the year end valuation. We challenged the method adopted, the derivation of the key inputs of fair maintainable trade and FMT/ERV multiple (as described in note 17) and the nature and extent of the work they performed in preparing the valuations.

Together with our internal property valuation specialists, we evaluated the competence, capability and objectivity of management's external and internal valuation experts.

The source data provided by the Group to the external and internal valuation experts for the EIPP and EICP estate (consisting of drink barrelage, drink income and rental income by property), was tested back to underlying invoices for a sample of 60 transactions. The source data for the Managed estate (consisting of EBITDA by property) was agreed to underlying financial records for a sample of 52 properties.

We tested the arithmetical accuracy of the valuation models.

We performed risk specific sampling:

- Where the multiples applied did not fall within our expected ranges as informed through: historically achieved ranges by region; yields achieved through observable market transactions in the period; and overall trends in yields in the market as assessed by our internal property valuation specialists.
- Where, for the pub estate, movements in the FMT to actual income gap was inconsistent with underlying changes in the lease agreement profile.
- Where, for the investment property estate, the ERV applied in the valuation showed a material difference to the actual rental value achieved in the year.
- We also selected a random sample of assets to add unpredictability into our sampling approach.

We used data analytics as a risk assessment procedure over the whole estate to direct our testing towards those assets which displayed one or more unusual features either in their underlying performance or in their valuation outcome. We sampled properties where our overall property analytics identified outliers within the estate.

From our risk specific sampling and analytics procedures, we identified 203 (2018: 206) asset valuations for follow up. For the items identified we obtained explanations from the internal and external valuers as well as from the Director of FP&A where relevant for the valuation movement and/or FMT/multiple. With the involvement of our internal valuation specialists, we tested these explanations by corroborating changes in factual circumstances to relevant source documentation and historic trading performance.

We evaluated the adequacy of the disclosures regarding property assets in line with IAS 16, IAS 40 and IFRS 13.

Key observations communicated to the Audit Committee

The valuers have adopted an approach to the valuation of the Group's properties which is appropriate, consistent, and in accordance with applicable guidance.

The results of our procedures support the overall valuation outcome and we identified no material overstatement of property values.

Risk

Failure to impair cost of investments in subsidiaries held in the Parent Company through inappropriate impairment model assumptions in respect of discount rate, long-term growth and underlying short-term forecasts.

Company Investments (2019: £968m; 2018: £1,761m)

Refer to the Accounting policies (from page 90); and Note 18 of the Consolidated Financial Statements (page 116)

The Company investments have been impaired by £793m resulting in a total carrying value of £968m (2018: £1,761m). The impairment test is sensitive to the key assumptions of discount rate, the level of forecast cash flows and long-term growth rate, as described in note 18.

Our response to the risk
Parent Company investments were subject to full scope audit procedures.

We identified, documented and confirmed our understanding of the controls operated by the Company surrounding the investment impairment review.

We ensure that management had appropriately determined the carrying amount of the investment and audited the discounted cash flow workings to ensure they were clerically accurate.

We examined the cash flow forecasts by testing the underlying models, including analysis of the underlying assumptions, and by reference to the accuracy of previous forecasts and underlying assumptions.

The key assumptions of the discount rate and long-term growth rate underlying the investment impairment test were considered through a combination of testing the Company's detailed calculations, benchmarking the assumptions against comparator companies and external forecasts and, in respect of the discount rate assumption, an independent assessment by our specialists based on general market indicators.

We recalculated the investment impairment to confirm the amount was appropriate and for the remaining investment balance, we have considered if there were any further indicators of impairment.

We ensured the appropriate disclosures are included with the Annual Report and Accounts.

Key observations communicated to the Audit Committee

Following review and challenge management have recorded an impairment of Parent Company investments of £793m resulting in a balance of £968m as at 30 September 2019.

We recalculated the investment impairment to confirm the amount was appropriate and for the remaining balance no further indicators of impairment were identified.

The pre-tax discount rate of 8.5% applied in the impairment test is within our acceptable range.

The reduction in the assumption for the long-term growth rate is reflective of external forecasts.

The short-term forecasts are consistent with the current trading performance of Unique Pub Properties Limited.

Independent auditor's report (Continued)
to the members of Ei Group plc

Other matters

The overstatement of wet, dry, food and amusement income through manual journal postings, the risk of fraud as a result of management override (through inappropriate classification of items as non-underlying or through the classification of expenditure between capital or expense) and the risk of inappropriate disclosure of the impact of adopting IFRS 16 were also considered significant risks, but have not been included in the table above as a key audit matter as they were not areas of greatest audit effort.

In the prior year a key audit matter was included relating to the risk of a material misstatement of the deferred tax liability. This is no longer a key audit matter as a result of a reduction in the risk driven by lower historical material misstatements.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each entity.

The Group has common financial systems, processes and controls covering its operations with the exception of eight of the Group's managed house operations which are managed on stand-alone systems maintained by third party managers. Two of these eight operations are subject to specific scope procedures.

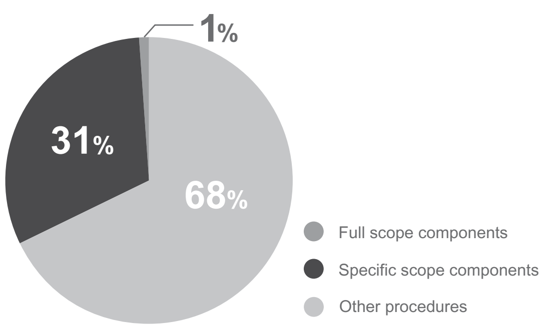
We assessed the risk of material misstatement to the financial statements, and ensured we had adequate coverage of significant accounts in the financial statements, of the 28 (2018: 27) reporting components of the Group. We performed an audit of the complete financial information of three (2018: four) full scope components which were selected based on their size or risk characteristics. We performed audit procedures on specific balances in respect of five (2018: three) specific scope components that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. These reporting components accounted for 99% (2018: 95%) of the Group's underlying profit before tax, 97% (2018: 97%) of the Group's Revenue and 99% (2018: 100%) of the Group's total assets.

The audits of the entities subject to full and specific scope audits (which represent the principal business units within the Group, one being the Parent Company itself) are performed at a materiality level calculated by reference to a proportion of the Group materiality appropriate to the relevant scale and risk of the business concerned. In the current year, the range of performance materiality allocated to these components was £0.9m to £3.1m (2018: £0.9m to £3.2m).

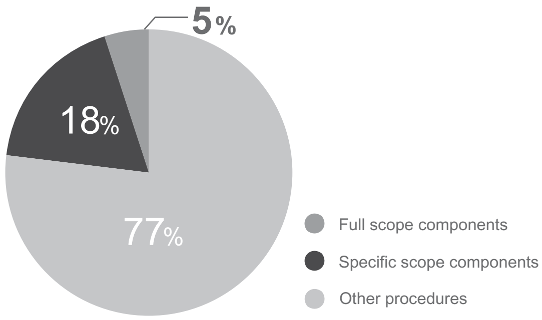
Of the remaining 20 components that together represent 1% of the Group's underlying profit before tax, none are individually greater than 1% of the Group's underlying profit before tax. For these components, we performed other procedures, including analytical review; review of group wide entity level controls; testing of consolidation journals; intercompany eliminations; and the assessment of control in accordance with IFRS 10; to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit.

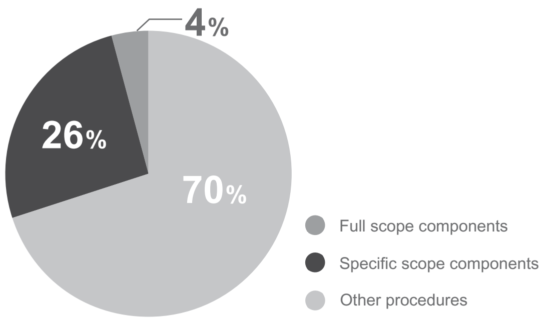
Underlying profit before tax (2019)



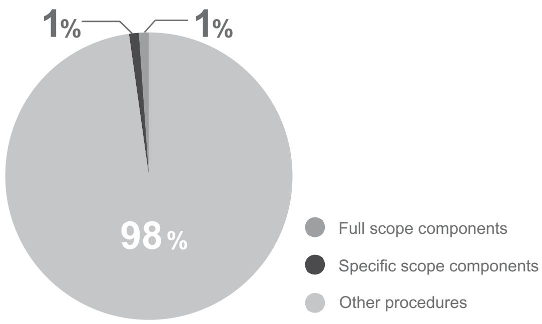
Underlying profit before tax (2018)



Revenue (2019)



Total assets (2019)



Changes from the prior year

The decrease in full scope components to three (2018: four) is due to the removal of Enterprise Funding Limited as a full scope component in the current year as 98% of the convertible bonds held by the entity were redeemed at the end of the prior year.

The increase in specific scope components to five (2018: three) is due to the inclusion of additional managed expert entities as specific scope in the current year. Specific scope components represent 31% of underlying profit before tax (2018: 18%) and procedures have been performed on material balances within underlying profit before tax in these entities. These components are not full scope as they only represent 1% of the Group's total assets.

Involvement with component teams

All audit work performed for the purposes of the audit was undertaken by the Group audit team.

Our application of materiality

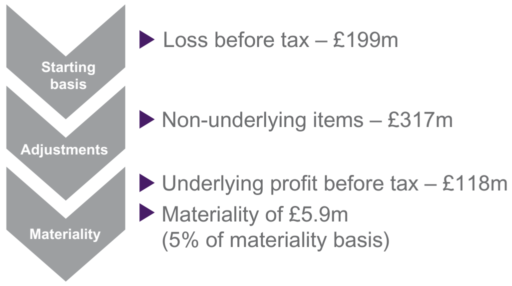
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

Independent auditor's report (Continued)
to the members of Ei Group plc

We determined materiality for the Group to be £5.9m (2018: £6.0m), which is 5% (2018: 5%) of underlying profit before tax. We have used underlying profit before tax as our materiality basis as it provides a normalised trend in trading performance.



We determined materiality for the Parent Company to be £3.8m (2018: £3.5m), which is 5% (2018: 5%) of underlying profit before tax.

During the course of our audit, we reassessed initial materiality and there was no change in our final materiality from our original assessment at planning.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment and limited historical audit findings indicating a lower risk of undetected misstatement in the financial statements, we set performance materiality at 75% (2018: 75%) of our planning materiality, namely £4.4m (2018: £4.5m).

Audit work for components for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £0.9m to £3.1m (2018: £0.9m to £3.2m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.3m (2018: £0.3m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

In the context of the Annual Report and Accounts, other information comprises the information included in the Annual Report set out on pages 01 to 150, including the Strategic report set out on pages 01 to 43, Governance set out on pages 44 to 79 and shareholder information set out on pages 149 to 150, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 62 –** the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting set out from page 57 –** the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the audit committee
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 52 –** the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 79, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent auditor's report (Continued)
to the members of Ei Group plc

In preparing the financial statements, the directors are responsible for assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit can detect fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant framework is the Small Business, Enterprise and Employment Act 2015, in particular the new Statutory Code of Practice.
- We understood how the Group complying with this framework by making inquiries of management, internal audit, those responsible for legal and compliance procedures, and the Company Secretary and through the review of the pubs code compliance report submitted to the Pubs Code Adjudicator. We corroborated our enquiries through review of board minutes, review of internal audit reports and papers provided to the Audit Committee.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management and the Audit Committee to understand where they considered there was susceptibility to fraud. In addition, we also performed specific procedures to respond to our fraud risks of overstatement of wet, dry, food and amusement income through manual journal postings, and the risk of fraud as a result of management override (through inappropriate classification of items as non-underlying or through the classification of expenditure between capital or expense). Such procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from material fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations that we considered could result in a material misstatement of the financial statements. Our procedures included a review of board minutes to identify any non-compliance with laws and regulations, a review of papers provided to the Audit Committee by internal audit on compliance with regulations and enquiries with the Director of Internal Audit, management and the Company Secretary.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/ auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the company at the AGM to audit the financial statements for the year ending 30 September 1991 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 29 years, covering the years ending 30 September 1991 to 30 September 2019.

Independent auditor's report (Continued)
to the members of Ei Group plc

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee

Use of our report

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

Christopher Voogd (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor Birmingham
18 November 2019

Notes:

1. The maintenance and integrity of the Ei Group plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Group income statement

for the year ended 30 September 2019

	Notes	2019 £m	2018 £m
Revenue	4	**724**	695
Operating costs before depreciation and amortisation	6	**(456)**	(413)
EBITDA*		**268**	282
Depreciation and amortisation	6	**(21)**	(19)
Operating profit		**247**	263
Profit on sale of controlling interest in subsidiary undertaking	5	**—**	1
(Loss)/profit on sale of property		**(7)**	2
Goodwill allocated to disposals		**(35)**	(8)
Net loss on sale of property	5	**(42)**	(6)
Movements in valuation of the estate and related assets	5	**(20)**	(19)
Goodwill impairment	12	**(232)**	—
Finance costs	9	**(152)**	(152)
(Loss)/profit before tax		**(199)**	87
Taxation	10	**(10)**	(15)
(Loss)/profit after tax attributable to members of the Parent Company		**(209)**	72
(Loss)/earnings per share	11		
Basic		**(46.2)p**	15.2p
Basic diluted		**(46.2)p**	14.7p

* Earnings before taxation, finance costs, goodwill impairment, movements in valuation of the estate and related assets, net loss on sale of property, profit on sale of controlling interest in subsidiary undertaking and depreciation and amortisation

Group statement of comprehensive income

for the year ended 30 September 2019

	2019	2018
	£m	£m
(Loss)/profit for the year	**(209)**	72
Items that will not be reclassified to the income statement:		
Unrealised surplus on revaluation of pub estate	**16**	8
Revaluation of assets on transfer to investment property	**(5)**	—
Movement in deferred tax liability related to revaluation of the estate	**(3)**	—
Other comprehensive income for the year net of tax	**8**	8
Total comprehensive (loss)/income for the year attributable to members of the Parent Company	**(201)**	80

Balance sheets
at 30 September 2019

	Notes	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Non-current assets					
Goodwill	12	**37**	304	**—**	—
Intangible assets: operating lease premiums	13	**8**	9	**3**	4
Property, plant and equipment	14	**3,185**	3,228	**1,617**	1,660
Investment property	15	**81**	368	**35**	175
Investments	18	**—**	—	**968**	1,761
Financial assets	22	**1**	—	**23**	14
Trade receivables	20	**3**	3	**2**	2
		3,315	3,912	**2,648**	3,616
Current assets					
Inventories	19	**5**	3	**—**	—
Trade and other receivables	20	**48**	55	**713**	685
Financial assets	22	**1**	3	**1**	3
Cash		**156**	158	**27**	18
		210	219	**741**	706
Non-current assets held for sale	16	**15**	13	**7**	7
Total assets		**3,540**	4,144	**3,396**	4,329
Current liabilities					
Trade and other payables	21	**(196)**	(207)	**(237)**	(231)
Current tax payable		**(5)**	(10)	**(3)**	(2)
Financial liabilities	22	**(19)**	(186)	**—**	(102)
Pension	27	**(1)**	(1)	**(1)**	(1)
Provisions	25	**(1)**	(1)	**(1)**	(1)
		(222)	(405)	**(242)**	(337)
Non-current liabilities					
Financial liabilities	22	**(1,845)**	(2,006)	**(1,168)**	(1,180)
Provisions	25	**(5)**	(5)	**(4)**	(4)
Deferred tax	26	**(172)**	(174)	**(71)**	(76)
		(2,022)	(2,185)	**(1,243)**	(1,260)
Total liabilities		**(2,244)**	(2,590)	**(1,485)**	(1,597)
Net assets		**1,296**	1,554	**1,911**	2,732
Equity					
Called up share capital	28	**12**	13	**12**	13
Share premium account	30	**486**	486	**486**	486
Revaluation reserve	30	**675**	751	**374**	424
Capital redemption reserve	30	**13**	12	**13**	12
Merger reserve	30	**77**	77	**—**	—
Treasury share reserve	30	**(227)**	(227)	**(227)**	(227)
Other reserve	30	**(3)**	(2)	**95**	298
Profit and loss account*		**262**	443	**1,158**	1,726
Equity attributable to members of the Parent Company		**1,295**	1,553	**1,911**	2,732
Non-controlling interests		**1**	1	**—**	—
Total equity		**1,296**	1,554	**1,911**	2,732

* The profit and loss account of the Parent Company is omitted from the Company's accounts by virtue of the exemption granted by section 408 of the Companies Act 2006. The loss for the year included in the financial statements of the Parent Company amounted to £755 million (2018: profit of £5 million).

Approved by the Board on 18 November 2019 and signed on its behalf by:

W S Townsend
N R Smith

Group statement of changes in equity

at 30 September 2019

	Group										
	Share capital	Share premium account	Revaluation reserve	Capital redemption reserve	Merger reserve	Treasury share reserve	Other reserve	Profit and loss account	Equity attributable to members of the Parent Company	Non-controlling interests	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 October 2017	13	486	747	12	77	(227)	18	376	1,502	1	1,503
Profit for the year	—	—	—	—	—	—	—	72	72	—	72
Other comprehensive income	—	—	8	—	—	—	—	—	8	—	8
Total comprehensive income	—	—	8	—	—	—	—	72	80	—	80
Transfer of realised revaluation surplus	—	—	(7)	—	—	—	—	7	—	—	—
Transfer of deferred tax	—	—	3	—	—	—	—	(3)	—	—	—
Share-based expense recognised in operating profit	—	—	—	—	—	—	—	2	2	—	2
Share option entitlements exercised in the year	—	—	—	—	—	—	2	(2)	—	—	—
Purchase of own shares into Employee Benefit Trust	—	—	—	—	—	—	(1)	—	(1)	—	(1)
Share buybacks	—	—	—	—	—	—	—	(20)	(20)	—	(20)
Convertible bond redemption	—	—	—	—	—	—	(21)	11	(10)	—	(10)
At 30 September 2018	13	486	751	12	77	(227)	(2)	443	1,553	1	1,554
Loss for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(209)**	**(209)**	**—**	**(209)**
Other comprehensive income	**—**	**—**	**8**	**—**	**—**	**—**	**—**	**—**	**8**	**—**	**8**
Total comprehensive income/(loss)	**—**	**—**	**8**	**—**	**—**	**—**	**—**	**(209)**	**(201)**	**—**	**(201)**
Transfer of realised revaluation surplus	**—**	**—**	**(101)**	**—**	**—**	**—**	**—**	**101**	**—**	**—**	**—**
Transfer of deferred tax	**—**	**—**	**17**	**—**	**—**	**—**	**—**	**(17)**	**—**	**—**	**—**
Share-based expense recognised in operating profit	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**3**	**3**	**—**	**3**
Share option entitlements exercised in the year	**—**	**—**	**—**	**—**	**—**	**—**	**2**	**(2)**	**—**	**—**	**—**
Tax related to share schemes recognised directly in equity	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**2**	**2**	**—**	**2**
Purchase of own shares into Employee Benefit Trust	**—**	**—**	**—**	**—**	**—**	**—**	**(3)**	**—**	**(3)**	**—**	**(3)**
Share buybacks	**(1)**	**—**	**—**	**1**	**—**	**—**	**—**	**(59)**	**(59)**	**—**	**(59)**
At 30 September 2019	**12**	**486**	**675**	**13**	**77**	**(227)**	**(3)**	**262**	**1,295**	**1**	**1,296**

Company statement of changes in equity

at 30 September 2019

	Company							
	Share capital	Share premium account	Revaluation reserve	Capital redemption reserve	Treasury share reserve	Other reserve	Profit and loss account	Total
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 October 2017	13	486	430	12	(227)	347	1,699	2,760
Profit for the year	—	—	—	—	—	—	5	5
Other comprehensive loss	—	—	(4)	—	—	—	—	(4)
Total comprehensive (loss)/ income	—	—	(4)	—	—	—	5	1
Transfer of realised revaluation surplus	—	—	(2)	—	—	—	2	—
Transfer of deferred tax	—	—	—	—	—	—	—	—
Share-based expense recognised in operating profit	—	—	—	—	—	—	2	2
Share option entitlements exercised in the year	—	—	—	—	—	2	(2)	—
Purchase of own shares into Employee Benefit Trust	—	—	—	—	—	(1)	—	(1)
Share buybacks	—	—	—	—	—	—	(20)	(20)
Convertible bond redemption	—	—	—	—	—	(21)	11	(10)
Reclassification (see note 30)	—	—	—	—	—	(29)	29	—
At 30 September 2018	13	486	424	12	(227)	298	1,726	2,732
Loss for the year	**—**	**—**	**—**	**—**	**—**	**—**	**(755)**	**(755)**
Other comprehensive loss	**—**	**—**	**(9)**	**—**	**—**	**—**	**—**	**(9)**
Total comprehensive loss	**—**	**—**	**(9)**	**—**	**—**	**—**	**(755)**	**(764)**
Transfer of realised revaluation surplus	**—**	**—**	**(47)**	**—**	**—**	**—**	**47**	**—**
Transfer of deferred tax	**—**	**—**	**6**	**—**	**—**	**—**	**(6)**	**—**
Share-based expense recognised in operating profit	**—**	**—**	**—**	**—**	**—**	**—**	**3**	**3**
Share option entitlements exercised in the year	**—**	**—**	**—**	**—**	**—**	**2**	**(2)**	**—**
Tax related to share schemes recognised directly in equity	**—**	**—**	**—**	**—**	**—**	**—**	**2**	**2**
Purchase of own shares into Employee Benefit Trust	**—**	**—**	**—**	**—**	**—**	**(3)**	**—**	**(3)**
Share buybacks	**(1)**	**—**	**—**	**1**	**—**	**—**	**(59)**	**(59)**
Reclassification (see note 30)	**—**	**—**	**—**	**—**	**—**	**(202)**	**202**	**—**
At 30 September 2019	**12**	**486**	**374**	**13**	**(227)**	**95**	**1,158**	**1,911**

Cash flow statements

for the year ended 30 September 2019

	Group		Company	
	2019	2018	2019	2018
	£m	£m	£m	£m
Cash flow from operating activities				
Operating profit	**247**	263	**122**	139
Depreciation and amortisation	**21**	19	**12**	11
Share-based expense recognised in the income statement	**3**	2	**3**	2
Decrease/(increase) in receivables	**6**	(7)	**(23)**	(30)
(Decrease)/increase in payables	**(10)**	3	**9**	(4)
Increase in inventories	**(2)**	(1)	**—**	—
Increase in provisions	**—**	1	**—**	1
	265	280	**123**	119
Tax paid	**(18)**	(9)	**(10)**	(3)
Net cash flows from operating activities	**247**	271	**113**	116
Cash flows from investing activities				
Payments to acquire public houses	**—**	—	**(11)**	(9)
Payments made on improvements to public houses	**(81)**	(75)	**(43)**	(38)
Payments to acquire other property, plant and equipment	**(6)**	(6)	**(6)**	(6)
Receipts from sale of property	**384**	66	**198**	30
New loans to subsidiary undertakings	**—**	—	**(8)**	(6)
Dividend from subsidiary undertakings	**—**	—	**31**	13
Net cash flows from investing activities	**297**	(15)	**161**	(16)
Cash flows from financing activities				
Interest paid	**(139)**	(143)	**(84)**	(81)
Interest received	**2**	—	**1**	—
Debt extinguishment costs	**—**	(7)	**—**	(7)
Debt restructuring costs	**(2)**	(7)	**(2)**	(3)
Debt redemption costs	**(14)**	—	**—**	—
Payments to acquire own debt	**—**	(5)	**—**	—
Payments to acquire own shares	**(63)**	(21)	**(63)**	(21)
New loans	**320**	340	**320**	340
Repayment of loans	**(650)**	(406)	**(437)**	(325)
Net cash flows from financing activities	**(546)**	(249)	**(265)**	(97)
Net (decrease)/increase in cash	**(2)**	7	**9**	3
Cash at start of year	**158**	151	**18**	15
Cash at end of year	**156**	158	**27**	18

Notes to the accounts
at 30 September 2019

1. General information

The consolidated financial statements of Ei Group plc (the 'Parent Company' or the 'Company') for the year ended 30 September 2019 were authorised for issue by the Board on 18 November 2019. Ei Group plc is a public company limited by shares, incorporated and registered in England. The Company's ordinary shares are traded on the London Stock Exchange.

2. Presentation of financial statements

Statement of compliance

These financial statements are prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis of preparation

The financial information for the year ending 30 September 2019 has been prepared in accordance with the accounting policies set out in note 3 and is presented in pounds sterling. Amounts are shown in millions, unless stated otherwise.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Ei Group plc and its subsidiaries. Consolidated financial statements are drawn up to 30 September each year and adjustments are made to the financial statements of the subsidiaries where necessary to bring the accounting policies used in line with those used by the Group.

Subsidiaries are those controlled by the Group. Control exists when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity taking into account any potential voting rights. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

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

Result of the Parent Company

The directors have taken advantage of the exemption provided under section 408 of the Companies Act 2006 not to publish the Parent Company individual income statement, statement of comprehensive income and related notes.

Going concern

The Group's business activities, including a description of its financial position, cash flows, debt and borrowing facilities, are set out in the Strategic report on pages 01 to 43, along with a summary of factors likely to affect the Group's future development and performance.

Further details on the Group's financial instruments and risks can be found in note 22 of the accounts on pages 118 to 125.

The directors have considered the Group's financial resources including a review of the medium-term financial plan, which includes a review of the Group's cash flow forecasts for the period of at least 12 months from the date of approval of these financial statements along with the principal risks and uncertainties as described on pages 37 to 43.

The directors have given specific consideration to going concern in light of the proposed offer for the Group as explained further in the Strategic report on page 43.

Based on the outcome of the above considerations the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the period under review. For this reason the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

2. Presentation of financial statements (Continued)

New standards and interpretations adopted during the year

During the year ended 30 September 2019 the Group has adopted the following amendments to existing standards. These have not had a material impact on the results of the Group:

- IFRS 2—Share Based Payments

Classification and measurement of share-based payment transactions—amendments to IFRS 2

The amendment clarifies the accounting around cash-settled share-based payment transactions and those with net settlement features.

- IFRS 9—Financial Instruments

IFRS 9 sets out requirements for recognition and measurement of financial instruments, including impairment, derecognition and general hedge accounting.

This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The Group adopted IFRS 9 on 1 October 2018 prospectively and therefore the information presented for comparative periods has not been restated and is presented, as previously reported, under IAS 39.

Classification and measurement

The adoption of IFRS 9 has had no material impact on the measurement of financial assets and financial liabilities. The Group's financial assets, trade and other receivables and Parent Company intercompany loan receivables, all previously carried at amortised cost under IAS 39, continue to be carried at amortised cost under IFRS 9.

There are no changes to the classification and measurement of the Group's financial liabilities.

Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss (ECL) model. The new impairment model applies to the Group's financial assets that are held at amortised cost.

The Group has determined that the application of the impairment requirements of IFRS 9 as at 1 October 2018 has not resulted in an additional allowance for impairment and given there was no impact on retained earnings, no restatement was required.

The Group's policy for measuring the expected credit loss is described in the accounting policies, note 3, and additional disclosure in notes 20 and 22.

- IFRS 15—Revenue from Contracts with Customers

The Group adopted IFRS 15 on 1 October 2018 using the modified retrospective approach without practical expedients.

The core principle of IFRS 15 is that an entity will recognise revenue in line with the transfer of each element of promised goods or services in a contract to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those individual elements of goods or services. This core principle is delivered in a five-step model framework that involves allocating the transaction price to each performance condition within a contract.

Following an assessment of the terms of contracts it enters into with customers, the Group has concluded that the adoption of the new standard does not have a material impact on its consolidated results and financial position, but has resulted in additional disclosure requirements.

New standards and interpretations not yet adopted

Effective for periods beginning on or after 1 January 2019 which is the year ended 30 September 2020 for the Group.

- IAS 12—Income Taxes

IFRIC 23—Uncertainty over Income Tax Treatments issued

The interpretation sets out how to determine the accounting tax position when there is uncertainty over income tax treatments.

2. Presentation of financial statements (Continued)

- IFRS 16—Leases

IFRS 16 replaces IAS 17 and establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that appropriately represents those transactions. It requires lessees to recognise assets and liabilities for all leases unless the underlying asset has a low value or the lease term is 12 months or less.

The standard requires an entity that is a lessee to recognise a right of use asset and a lease liability based on the net present value of the payments required under each of its leases. The operating lease charge, currently recognised in EBITDA, is replaced by the depreciation of the right of use asset and interest on the lease liability. As well as a change to the line items in the income statement it also changes the profile of the net charge recognised in the income statement over the lease term.

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

Transition

On transition the Group has the option to apply the new standard retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the standard recognised in the profit and loss reserve at the date of initial application being 1 October 2019.

The Group expects to apply IFRS 16 following the modified retrospective approach which results in the recognition of a lease liability at the date of initial application measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 October 2019 along with a right of use asset based on either the carrying amount as if IFRS 16 had been applied since the lease commencement date, but discounted using the incremental borrowing rate 1 October 2019 or an amount equal to the lease liability adjusted for payments made immediately prior to initial adoption on a lease by lease basis.

Impact of adoption

On adoption the Group is expected to recognise a right of use asset of £215 million and a financial asset of £9 million (including the existing intangible operating lease premium asset of £8 million) with a corresponding lease liability of £281 million. The right of use asset of £215 million is net of an impairment provision based on an impairment test carried out on adoption.

A balance of £5 million in prepayments in relation to lease payments made immediately prior to adoption is expected to be released along with the existing onerous lease provision of £6 million and an overdue rent review provision of £5 million.

The net balance of £59 million is expected to be recognised in the opening profit and loss reserve. The deferred tax effect of the above balance recognised in the opening profit and loss reserve is estimated to be £10 million.

EBITDA in the financial year ending 30 September 2020 is expected to increase by approximately £21 million being the operating lease payments previously recognised as an expense within EBITDA net of a reduction in rental income for those properties that have been identified as sub-let on finance leases. Depreciation and amortisation is expected to increase by £10 million reflecting the deprecation of the right of use asset resulting in a net increase to operating profit of £11 million. Finance costs will increase by a net £15 million resulting in an overall net decrease to profit before tax of £4 million.

There is no net cash impact of the adoption of IFRS 16, however, the standard prescribes that where operating lease payments were previously categorised as operating cash flows the payments will be split between the principal portion and the interest element with both to be presented within cash flows from financing activities. The change in presentation is expected to result in an improvement to operating cash flows of £21 million, the corresponding decrease being in financing cash flows.

Incremental borrowing rate

The weighted average incremental borrowing rate applied to lease liabilities was 5.8%.

2. Presentation of financial statements (Continued)

The expected impact of the adoption of IFRS 16 on the balance sheet as at 1 October 2019 is estimated to be as follows:

	Group			Company		
	As reported at 30 September 2019	IFRS 16 adoption	As at 1 October 2019	As reported at 30 September 2019	IFRS 16 adoption	As at 1 October 2019
	£m	£m	£m	£m	£m	£m
Non-current assets						
Goodwill	37	—	37	—	—	—
Intangible assets: operating lease premiums	8	(8)	—	3	(3)	—
Property, plant and equipment	3,185	197	3,382	1,617	174	1,791
Investment property	81	18	99	35	18	53
Investments	—	—	—	968	—	968
Financial assets	1	—	1	23	—	23
Trade receivables	3	—	3	2	—	2
	3,315	207	3,522	2,648	189	2,837
Current assets						
Inventories	5	—	5	—	—	—
Trade and other receivables	48	(5)	43	713	(4)	709
Financial assets	1	9	10	1	20	21
Cash	156	—	156	27	—	27
	210	4	214	741	16	757
Non-current assets held for sale	15	—	15	7	—	7
Total assets	3,540	211	3,751	3,396	205	3,601
Current liabilities						
Trade and other payables	(196)	5	(191)	(237)	3	(234)
Current tax payable	(5)	—	(5)	(3)	—	(3)
Financial liabilities	(19)	(4)	(23)	—	(3)	(3)
Pension	(1)	—	(1)	(1)	—	(1)
Provisions	(1)	1	—	(1)	1	—
	(222)	2	(220)	(242)	1	(241)
Non-current liabilities						
Financial liabilities	(1,845)	(277)	(2,122)	(1,168)	(268)	(1,436)
Provisions	(5)	5	—	(4)	4	—
Deferred tax	(172)	10	(162)	(71)	10	(61)
	(2,022)	(262)	(2,284)	(1,243)	(254)	(1,497)
Total liabilities	(2,244)	(260)	(2,504)	(1,485)	(253)	(1,738)
Net assets	1,296	(49)	1,247	1,911	(48)	1,863
Equity						
Called up share capital	12	—	12	12	—	12
Share premium account	486	—	486	486	—	486
Revaluation reserve	675	—	675	374	—	374
Capital redemption reserve	13	—	13	13	—	13
Merger reserve	77	—	77	—	—	—
Treasury share reserve	(227)	—	(227)	(227)	—	(227)
Other reserve	(3)	—	(3)	95	—	95
Profit and loss account	262	(49)	213	1,158	(48)	1,110
Equity attributable to members of the Parent Company	1,295	(49)	1,246	1,911	(48)	1,863
Non-controlling interests	1	—	1	—	—	—
Total equity	1,296	(49)	1,247	1,911	(48)	1,863

3. Accounting policies

Goodwill

Goodwill represents the excess of consideration over the fair value of identifiable assets and liabilities acquired in a business combination. Goodwill is not amortised but is tested for impairment annually, or more frequently where events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is stated at cost less any impairment. At 30 September 2015 goodwill was allocated to individual properties based on their relative value at that time, and on disposal of a property, this attributable amount of goodwill is included in the determination of profit or loss on sale. For the purpose of impairment testing, goodwill is allocated to cash generating units that are consistent with the Group's operating segments. As properties move between segments the associated goodwill will also be transferred.

Goodwill arising on acquisitions prior to 1 October 1998 was written off against reserves and has not been subsequently reversed. Any such goodwill is not included in determining the profit or loss on disposal.

Fixed asset investments

Fixed asset investments in the Parent Company balance sheet are initially recognised at fair value and then held at this value subject to an annual impairment test. The assessment for impairment is detailed in the property, plant and equipment accounting policy below.

Property, plant and equipment

Licensed land and buildings are held at their fair value, and landlord's fixtures and fittings and other assets are held at cost.

The Group's licensed land and buildings recognised in property, plant and equipment, are revalued each year by external valuers or employees who are professionally qualified to carry out such valuations.

Surpluses arising from the revaluation exercise are taken through other comprehensive income to the revaluation reserve except where they reverse a revaluation decrease relating to the same asset previously recognised as an expense in the income statement. Any deficit arising from the revaluation exercise is taken through other comprehensive income to the revaluation reserve to the extent that there is a surplus in place relating to the same asset. Any further decrease in value is recognised in the income statement as an expense.

Freehold land is not depreciated. Freehold buildings are depreciated so as to write off the difference between their carrying value and residual value over their useful economic life of 50 years. Residual value is reviewed at least at each financial year end and there is no depreciable amount if residual value is the same as, or exceeds, book value.

Landlord's fixtures and fittings are split into two categories, long-life landlord's fixtures and fittings and short-life landlord's fixtures and fittings. Both are held at cost less accumulated depreciation. The useful economic life of additions in the form of long-life landlord's fixtures and fittings has been calculated at 30 years and additions to short-life landlord's fixtures and fittings has been calculated at 5 years. Depreciation is charged on a straight line basis to write off the total cost less residual value over the useful economic life.

Properties held under finance leases are depreciated on a straight line basis over the shorter of the remaining lease term and their useful economic life of 50 years.

Depreciation is provided on other categories of property, plant and equipment over 3 to 50 years on a straight line basis to residual value.

Property, plant and equipment is reviewed annually for indicators of impairment. Where any indicators are identified, assets are assessed fully for impairment. Impairment occurs where the recoverable amount of the asset is less than its carrying amount. Recoverable amount is the higher of an asset's fair value less costs to dispose and value in use. Any impairment loss is treated as a revaluation decrease to the extent that a surplus exists for the same asset, and thereafter as an expense in the income statement.

3. Accounting policies (Continued)

Investment property

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

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

Transfers are made to/from investment property when there is change of use evidenced by a change in the lease terms. When a property transfers from property, plant and equipment to investment property it is revalued to fair value and the movement recognised in line with the accounting policy described under property, plant and equipment. When a property transfers from investment property to property, plant and equipment it is revalued to fair value and the movement recognised in the income statement.

Non-current assets held for sale

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

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

Inventories

Inventories which comprise products held for resale in managed houses are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Leases

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Properties acquired under finance leases are capitalised at the lower of their fair value and the present value of future minimum lease payments. The corresponding liability is included in the balance sheet as a finance lease payable. Properties held under finance leases are revalued along with the freehold estate on an annual basis. Lease payments are apportioned between finance charges and reduction of the lease liability so as to obtain a constant rate of interest on the remaining balance of the liability. Finance charges are taken as an expense to the income statement.

Leases where substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals paid under operating leases are charged on a straight line basis to the income statement over the lease term. The fair value attributed to properties acquired as part of business combinations that are held as operating leases are classified in the balance sheet as intangible assets: operating lease premiums within non-current assets and are amortised over the lease term.

The Group has previously entered into sale and leaseback transactions where licensed land and buildings have been sold and the Group has immediately entered into a lease agreement with the acquiree. These land and buildings have been classified as operating leases. They are no longer included within property, plant and equipment and the rentals paid are charged on a straight line basis to the income statement over the lease term.

3. Accounting policies (Continued)

Repairs and maintenance

Repairs and maintenance expenditure is charged to the income statement as incurred.

Assignment premiums

Where an amount is paid to a publican in order to take the assignment of a lease or to break a lease at any point other than at renewal, the payment made is expensed through administrative costs. During the period of our strategic evolution, which we determine to be five years following the implementation of the Pubs Code to allow for a full cycle of rent reviews, this will be treated as non-underlying.

Where an amount is paid to a publican in order to regain control of the property at the point of lease renewal in order that the Group can operate the site as a directly managed pub, the amount is linked to a capital investment project in order to reposition the property for the managed offering, and the premium paid is capitalised and depreciated in line with the project spend.

Financial instruments

a) Cash and cash equivalents

Cash comprises cash at bank and in hand. Any short-term deposits with an original maturity date of three months or less are classified as cash equivalents.

b) Borrowings

Borrowings which include bank borrowings, corporate bonds and securitised bonds are measured at amortised cost. This method is used to ensure that the interest charge associated with the debt, combined with the amortisation of the issue costs, premiums and discounts, represents a constant percentage of the borrowings across the life of the instrument based on the estimated cash flows and the contractual terms of the agreement.

When borrowings are refinanced the Group reviews whether the arrangement constitutes an extinguishment of the original financial liability and the recognition of a new financial liability or a modification of the terms of the existing financial liability. If the refinanced borrowings are accounted for as an extinguishment of the original financial liability, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment and written off through non-underlying finance costs. If the refinanced borrowings are accounted for as a modification, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining life of the modified loan. The effects of changes to the amount and timing of cash flows due to a modification adjust the future amortisation of the carrying amount.

c) Convertible financial instruments

The gross proceeds received from the issue of a convertible bond are split between a liability element and an equity component at the date of issue. The fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible bond and the fair value assigned to the liability component, representing any embedded option to convert the liability into equity of the Company, is included in equity and is not remeasured. The liability component is carried at amortised cost using the effective interest method until extinguished upon conversion or the instrument's maturity date. Issue costs are apportioned between the liability and equity components of the convertible bond based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

On early redemption the consideration paid and any transaction costs for the repurchase are allocated to the liability and equity components at the date of the transaction based on the fair value of the liability component estimated using the prevailing market interest rate for a similar non-convertible debt. The difference between the amount allocated to the liability and the book value of the liability is recognised in the income statement as a non-underlying finance cost. The amount allocated to equity is recognised in equity. The balance remaining in equity relating to the amount redeemed is transferred to the profit and loss reserve.

3. Accounting policies (Continued)

The difference between the interest expense calculated under the effective interest rate method and interest paid to bondholders is added to the carrying amount of the convertible bond.

d) Equity instruments

Equity instruments, being ordinary shares issued by the Parent Company, are recorded at the fair value of the proceeds received, net of any direct issue costs. The nominal value of shares issued is recorded in called up share capital and the balance of the net proceeds is recorded in share premium.

When the Group returns surplus cash to shareholders through share buybacks, consideration paid or payable for shares purchased for cancellation is deducted from equity. The Company uses contingent share purchase contracts and the obligation to purchase shares is recognised in full at the inception of the contract. Any subsequent reduction in the obligation caused by the expiry or termination of a contract is credited back to equity at that time.

e) Trade receivables and trade payables

Trade receivables are held at their original invoiced amount net of an ECL allowance, based on the simplified model as allowed by IFRS 9 (further detail is given in note 20). Trade payables are held at amortised cost. Amounts owed by subsidiary undertakings are assessed for ECLs on a general basis under IFRS 9. The Company recognises a provision on this basis when the carrying value of the asset is not supported by the collateral available

Fair value measurement

The Group measures licensed land and buildings, within property, plant and equipment, investment property and non-current assets held for sale, at fair value and provides disclosure information in respect of the financial assets and liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group.

The fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use provided that use was physically possible, legally permissible and financially feasible to access. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

IFRS 13 requires that all assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole.

The classification uses the following three-level hierarchy:

- Level 1—Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2—Other techniques whereby the inputs are either directly or indirectly derived from market data.
- Level 3—Inputs used in the valuation are not based on observable market data.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3. Accounting policies (Continued)

Net debt

Net debt is the total book value of all financial assets and liabilities (not including trade receivables, trade payables and the equity component of the convertible bond) less cash. Underlying net debt is the nominal value of all financial assets and liabilities (not including trade receivables, trade payables and the equity component of the convertible bond) less cash.

Taxation

The tax expense comprises both the tax payable based on taxable profits for the year and deferred tax. Deferred tax is provided using the balance sheet liability method in respect of temporary differences between the carrying value of assets and liabilities for accounting and tax purposes. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. No deferred tax is recognised if the taxable temporary difference arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted by the balance sheet date.

Current tax assets and liabilities are offset where there is a legally enforceable right to offset the recognised amounts and the intention is to either settle on a net basis or realise the asset and liability simultaneously. Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities, and the assets and liabilities relate to taxes levied by the same tax authority which are intended to be settled net or simultaneously.

Tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly tax is charged or credited directly to equity if it relates to items charged or credited directly to equity. Otherwise tax is charged in the income statement. Tax is calculated using tax rates enacted or substantively enacted at the balance sheet date.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, the amount of the provision is discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The amount of the provision would therefore represent the present value of the expenditure expected to be required to settle the obligation.

Pension obligations

The Group has both defined contribution and defined benefit pension arrangements.

The cost of defined contribution payments made to employees' own pension plans is charged to the income statement as incurred.

As described in note 27, the Group entered into a bulk annuity policy that is a qualifying insurance policy in respect of the defined benefit section of the pension scheme.

Having entered into this policy, the scheme liabilities continue to be valued on the projected unit credit method and then the value of the annuity policy is stated as equal to the amount ascribed to the plan liabilities covered by the policy. Actuarial movements in the value of the scheme liabilities and the interest costs on scheme liabilities are matched by equivalent movements in the scheme asset. To the extent that the Group is committed to deferred premiums or future administration costs in respect of the annuity policy or the scheme, these are recorded as an additional liability within the pension deficit at the net present value of future premiums. The interest paid on the bulk annuity policy is charged as a finance cost. The plan obligations will be derecognised on final settlement of the plan.

3. Accounting policies (Continued)

Treasury shares

The cost of own shares held in employee benefit trusts and in treasury is deducted from shareholders' equity until the shares are cancelled, re-issued or disposed of. Any proceeds received are also taken to shareholders' equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of own shares held.

Revenue recognition

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

Publican Partnerships

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

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

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

Commercial Properties

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

Managed

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

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

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

Share-based payments

The Group operates a number of equity-settled share-based payment schemes for employees. Share-based payments are measured at fair value at the date of the award. This value is subsequently updated at each balance sheet date for management's best estimate of the effect of non-market based vesting conditions on the number of equity instruments that will ultimately vest. In valuing equity-settled transactions, no account is taken of any service and performance (vesting conditions), other than performance conditions linked to the price of the shares of the Parent Company (market conditions). Any other conditions which are required to be met in order for an employee to become fully entitled to an award are considered to be non-vesting conditions. Like market performance conditions, non-vesting conditions are taken into account in determining the grant date fair value. The fair value is recognised as an expense over the vesting period by calculating the cumulative expense and recognising the movement in the cumulative expense in the income statement. A corresponding entry is made to equity.

3. Accounting policies (Continued)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance or service conditions are satisfied.

Dividends

Final dividends are recognised as a liability when they have been approved by shareholders at the Annual General Meeting. Interim dividends are recognised when they are paid.

Operating profit

Operating profit as referred to in the income statement is defined as being profit generated from normal trading activities before net profit/(loss) on sale of property, movements in valuation of the estate and related assets, goodwill impairment, finance costs and taxation.

Non-underlying items

The Group uses adjusted figures as key performance measures in addition to those reported under IFRS as management believe these measures enable them to assess the underlying performance of the business. Adjusted figures exclude non-underlying items which comprise exceptional items, non-recurring items and other adjusting items.

Use of accounting estimates and judgements

The Group makes judgements, estimates and assumptions during the preparation of the financial statements in the application of its accounting policies. Actual results may differ from these estimates under different assumptions and conditions. Those judgements and estimates that have the most significant effect on the amounts recognised in the financial statements are discussed on the next page.

Significant judgements:

Classification of non-underlying items

Judgement is used to determine those items that should be classified as non-underlying so as to give a better understanding of the underlying trading performance of the Group. These items include:

a) Non-underlying operating costs

Non-underlying operating costs relating to regulatory matters and reorganisational costs have been recognised in the operating costs before depreciation and amortisation line.

During the period of our strategic evolution, assignment premiums where an amount is paid to publicans in order to take the assignment of a lease or to break a lease at any point other than at renewal would be treated as non-underlying. These costs have been incurred following the strategic review and the introduction of the Pubs Code in July 2016 and are not considered to be part of the underlying business as they are not expected to recur once the realignment of properties has been completed. This treatment is expected to apply for five years following the implementation of the Pubs Code which will allow for a full cycle of rent reviews over which time the Group will assess the optimal location for each asset which may include the payment of an assignment premium to allow the Group access to the property.

In addition, professional fees incurred in respect of the Stonegate Offer have been included in non-underlying operating costs.

b) Net profit/(loss) on sale of property

Net profit/(loss) arising from the sale of property less goodwill allocated to disposals. The Group's trading operations are based around the income earned from owning property and therefore the profit or loss made from the sale of property is considered to be non-underlying.

c) Movements in valuation of the estate and related assets

Any revaluation that causes the book value of a property held in property, plant and equipment to fall below historic cost will lead to a charge in the income statement. If that same property later recovers in

3. Accounting policies (Continued)

value so that its book value exceeds historic cost, the increase in value is credited to the income statement to the extent that a debit was previously recognised. Where properties identified for disposal are revalued immediately prior to transfer to non-current assets held for sale, the revaluation movement is recognised on the same basis.

Any gain or loss arising from the change in value of investment property is recognised in the income statement in the period in which it arises.

The movements in valuation of the estate and related assets do not directly result from underlying trading performance of the Group in any one reporting period and therefore have been categorised as non-underlying since they are not in the direct control of the Group.

d) Goodwill impairment

Where the recoverable amount of each cash generating unit to which goodwill has been allocated to is lower than the carrying value of goodwill the impairment is recognised as a non-underlying item.

e) Net finance costs

The gain or loss on purchase of own debt is calculated as the difference between the carrying value of the debt purchased less the aggregate of the consideration and related transaction costs paid. The Group has elected to take the gain or loss on the settlement date.

Non-underlying finance costs are recognised in relation to fees written off following the commitment to extinguish or restructure borrowings or where incurred as part of debt restructuring projects.

f) Taxation

A deferred tax liability has been recognised on the balance sheet relating to the estate. On transition to IFRS, the Group elected to apply IFRS 3 retrospectively to acquisitions from 1 January 1999. This led to an increase in goodwill in respect of this deferred tax. As this pre-acquisition liability changes due to capital gains indexation relief and changes in the rate of UK tax, a debit or a credit is recognised in the income statement. This has been classified as a non-underlying tax item due to its size and because it does not relate to any income or expense recognised in the income statement in the same period. All other movements in respect of this deferred tax liability are accounted for in the same performance statement as the gross item to which it relates.

The effect of changes in the substantively enacted rate of tax used to calculate deferred tax is reflected in other comprehensive income to the extent it relates to revaluation surpluses therein and in non-underlying profit/loss for all other elements of deferred tax.

The tax effect of all other non-underlying items is categorised as non-underlying in the income statement.

Going concern

The directors exercise judgement when concluding on going concern as the basis of preparation of the financial statements. For details of the specific assessment please see the Strategic report.

Methodology applied in the valuation of properties

Property assets are revalued annually to fair value in accordance with the Appraisal and Valuation Manual published by the Royal Institute of Chartered Surveyors (RICS) and IFRS 13. The valuation is based on an assessment of the income generating potential of the properties, and applying an appropriate multiple. The highest and best use for the property assets is assumed to be their current use by the Group, principally due to the legal restrictions imposed by the agreement with the publican, planning regulations and the financial implications of a change of use given those restrictions and the Group's business model. However, consideration is given to an alternative highest and best use if there are factors that indicate that such an alternative use exists which is physically possible, legally permissible and financially feasible to access.

Further information about the valuation of the estate is provided in note 17 of these financial statements.

3. Accounting policies (Continued)

Financing costs

When borrowings are refinanced with substantially the same lender, the Group uses judgement when reviewing whether the arrangement constitutes an extinguishment of the original financial liability and the recognition of a new financial liability or a modification of the terms of the existing financial liability. As described in note 5, the Group carried out a number of re-financing events during the prior year and the following judgements were made:

- With regards to the Unique consent solicitation exercise, judgement has been applied when assessing the change in terms and conditions, in determining that the event was a non-substantial modification to the existing financial liability.
- With regards to the refinancing of the RCF, judgement has been applied in determining that the event was a non-substantial modification to the existing financial liability by considering the expected future drawndown balance.

Related party transactions

The Group uses judgement when concluding that transactions with related parties of minority interests are not material for disclosure. This judgement is made based on the value of transactions.

Taxation

In order to calculate deferred tax on balances held by the Group it must make a judgement at each balance sheet date as to when a deferred tax asset is likely to be realised or when a deferred tax liability is likely to be settled to determine the rate at which tax should be calculated.

As the tax treatment of some transactions cannot be finally determined until a formal resolution has been reached with the tax authorities the Group uses judgement to determine the need for a tax provision. Tax benefits are not recognised unless it is probable that the benefit will be obtained. Tax provisions are made if it is expected that a liability will arise. The Group reviews each significant tax liability or benefit to assess the appropriate accounting treatment.

Significant estimates:

Property valuation estimates

The valuation methodology uses an estimation of the fair maintainable trade (FMT) of a pub and then applies a multiple. The FMT is estimated based on historic trends and projected future income whilst the multiples are determined by our valuers with reference to each specific asset and market information. For more detail on the FMT and multiples see note 17.

Goodwill and investment impairment testing estimates

The Group annually tests whether goodwill has been impaired and the parent company tests whether the investment in subsidiary undertakings has been impaired. Management makes judgements in calculating the recoverable amount based on value-in-use calculations which require estimating future cash flows and applying a suitable discount rate. Details of the tests and carrying value of the asset are shown in notes 12 and 18.

Taxation

If the Group has determined that a tax provision is required whilst a formal resolution is being reached with tax authorities it recognises a provision which requires estimation. The Group will use the information and circumstances it has available to it at the time to best estimate the quantum of any provision required.

The Group also uses fair value as its estimate for realisable value in calculating the deferred tax on the property estate.

4. Segmental analysis

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

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

This results in three reportable segments being:

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

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

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

Year ended 30 September 2019	**Publican Partnerships**	**Commercial Properties**	**Managed**	**Central**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Drink revenue	**363**	**—**	**186**	**—**	**549**
Rent revenue	**116**	**19**	**—**	**—**	**135**
Food revenue	**—**	**—**	**20**	**—**	**20**
Revenue from amusement and other machines	**8**	**—**	**8**	**—**	**16**
Other revenue	**—**	**—**	**4**	**—**	**4**
Total revenue	**487**	**19**	**218**	**—**	**724**
Operating costs before depreciation and amortisation	**(196)**	**—**	**(176)**	**(76)**	**(448)**
Underlying EBITDA	**291**	**19**	**42**	**(76)**	**276**
Non-underlying operating costs before depreciation and amortisation					**(8)**
Depreciation and amortisation					**(21)**
Net loss on sale of property					**(42)**
Movements in valuation of the estate and related assets					**(20)**
Goodwill impairment					**(232)**
Finance costs					**(152)**
Loss before tax					**(199)**
Taxation					**(10)**
Loss after tax					**(209)**

4. Segmental analysis (Continued)

Year ended 30 September 2018	Publican Partnerships	Commercial Properties	Managed	Central	Total
	£m	£m	£m	£m	£m
Drink revenue	383	1	130	—	514
Rent revenue	125	26	—	—	151
Food revenue	—	—	15	—	15
Revenue from amusement and other machines	8	—	5	—	13
Other revenue	—	—	2	—	2
Total revenue	516	27	152	—	695
Operating costs before depreciation and amortisation	(209)	—	(124)	(75)	(408)
Underlying EBITDA	307	27	28	(75)	287
Non-underlying operating costs before depreciation and amortisation					(5)
Depreciation and amortisation					(19)
Profit on sale of controlling interest in subsidiary undertaking					1
Net loss on sale of property					(6)
Movements in valuation of the estate and related assets					(19)
Finance costs					(152)
Profit before tax					87
Taxation					(15)
Profit after tax					72

5. Non-underlying items

The Group uses adjusted figures as key performance measures in addition to those reported under IFRS as management believe these measures better reflect the ongoing trading transactions and enable better comparability and accountability for performance for them and other stakeholders. Adjusted figures exclude non-underlying items which comprise exceptional items, non-recurring items and other adjusting items.

Non-underlying items include reorganisation costs, assignment premiums paid to publicans in order to take the assignment of a lease or to break a lease at any point other than at renewal during the period of our realignment of properties, professional fees incurred in respect of the Stonegate Offer, the profit on sale of controlling interest in subsidiary undertaking, the profit/loss on sale of property, the movements in valuation of the estate, goodwill impairment and costs incurred in repaying debt ahead of maturity and refinancing.

The adjusted figures are derived from the reported figures under IFRS as follows:

	2019			2018		
	Underlying items	Non-underlying items	Total	Underlying items	Non-underlying items	Total
	£m	£m	£m	£m	£m	£m
Revenue	**724**	**—**	**724**	695	—	695
Operating costs before depreciation and amortisation	**(448)**	**(8)**	**(456)**	(408)	(5)	(413)
EBITDA	**276**	**(8)**	**268**	287	(5)	282
Depreciation and amortisation	**(21)**	**—**	**(21)**	(19)	—	(19)
Operating profit/(loss)	**255**	**(8)**	**247**	268	(5)	263
Profit on sale of controlling interest in subsidiary undertaking	**—**	**—**	**—**	—	1	1
(Loss)/profit on sale of property	**—**	**(7)**	**(7)**	—	2	2

5. Non-underlying items (Continued)

	2019			2018		
	Underlying items	Non-underlying items	Total	Underlying items	Non-underlying items	Total
	£m	£m	£m	£m	£m	£m
Goodwill allocated to disposals	**—**	**(35)**	**(35)**	—	(8)	(8)
Net loss on sale of property	**—**	**(42)**	**(42)**	—	(6)	(6)
Movements in valuation of the estate and related assets	**—**	**(20)**	**(20)**	—	(19)	(19)
Goodwill impairment	**—**	**(232)**	**(232)**	—	—	—
Finance costs	**(137)**	**(15)**	**(152)**	(146)	(6)	(152)
Profit/(loss) before tax	**118**	**(317)**	**(199)**	122	(35)	87
Taxation	**(21)**	**11**	**(10)**	(22)	7	(15)
Profit/(loss) after tax attributable to members of the Parent Company	**97**	**(306)**	**(209)**	100	(28)	72
Earnings per share						
Underlying	**21.6p**			21.2p		
Underlying diluted	**21.6p**			20.0p		

Those items identified as non-underlying are explained further below:

a) Operating costs before depreciation and amortisation

A charge of £8 million (2018: £5 million) has been incurred in respect of assignment premiums paid, professional fees incurred in respect of the Stonegate Offer and reorganisation costs.

During the period of our strategic evolution, the £3 million (2018: £4 million) of assignment premiums paid to publicans in order to take the assignment of a lease or to break a lease at any point other than at renewal would be treated as non-underlying. These costs have been incurred following the strategic review and the introduction of the Pubs Code in July 2016 and are not considered to be part of the underlying business as they are not expected to recur once the realignment of properties has been completed. This treatment is expected to apply for five years following the implementation of the Pubs Code which will allow for a full cycle of rent reviews over which time the Group will assess the optimal location for each asset which may include the payment of an assignment premium to allow the Group access to the property.

In the year to 30 September 2019, £5 million (2018: £nil) of costs have been committed and incurred in relation to the proposed acquisition of the Group. These primarily relate to adviser, legal and professional fees and have been allocated to non-underlying as they are one-off in nature.

In the prior year restructuring costs of £1 million were incurred as we concluded the reorganisation of a number of support teams to meet our future needs and these charges were allocated to non-underlying as they were one-off in nature.

A tax credit of £1 million (2018: £1 million) has been recognised in relation to these costs.

b) Profit on sale of controlling interest in subsidiary undertaking

In the prior year on 21 September 2018 the Group completed the sale of its 51% controlling interest in Hunky Dory Pubs Limited, a company established in May 2016 with Oakman Inns to operate pubs, generating a profit on disposal of £1 million.

5. Non-underlying items (Continued)

c) Net loss on sale of property

	2019	2018
	£m	£m
Profit on sale of property, plant and equipment	**4**	11
Loss on sale of property, plant and equipment	**(5)**	(8)
Net (loss)/profit on sale of property, plant and equipment	**(1)**	3
Profit on sale of investment property	**24**	—
Loss on sale of investment property	**(30)**	(1)
Net loss on sale of investment property	**(6)**	(1)
Net (loss)/profit on sale of property before goodwill allocation	**(7)**	2
Goodwill allocated to disposals	**(35)**	(8)
Net loss on sale of property	**(42)**	(6)

The tax impact of the sale of properties and other assets is set out in note 10.

On 14 March 2019 the Group completed on the disposal of a portfolio of 348 properties and their associated non-licensed premises in a transaction to a subsidiary of Davidson Kempner Capital Management LP. Following this, and as part of the original agreement, a further six leasehold properties were also disposed to this purchaser during August and September 2019. All properties were trading within the Commercial Properties segment. The total net cash proceeds from the sale of £341 million were predominantly used to reduce debt. The loss on disposal of the transaction of £6 million includes fees of £4 million and a provision for future capital payments of £2 million. In accordance with IAS 36, £28 million of goodwill was allocated to these disposals.

In addition to this transaction, 129 properties (2018: 174 properties) and various other plots of land with a book value of £44 million (2018: £64 million) were disposed of generating gross proceeds of £50 million (2018: £71 million) which, after taking account of disposal costs, resulted in an overall loss of £1 million (2018: profit of £2 million). In accordance with IAS 36, £7 million (2018: £8 million) of goodwill was allocated to these disposals.

Included within the total profits on sale of property, plant and equipment above of £4 million, £1 million related to three properties and various plots of land with a 'special interest' value to particular buyers. The remaining profits of £3 million arose on 59 properties sold at an average profit of £49,000. The total losses on sale of property above of £5 million related to 67 properties sold at an average loss of £72,000.

d) Movements in valuation of the estate and related assets

	2019	2018
	£m	£m
Movement in property, plant and equipment from revaluation of the estate (see note 14)	**(14)**	(23)
Movement in investment property from revaluation of the estate (see note 15)	**(1)**	15
Revaluation movement from retained estate	**(15)**	(8)
Revaluation of property, plant and equipment on transfer to investment property (see note 14)	**(1)**	—
Revaluation of operating leases on transfer to non-current assets held for sale (see note 13)	**1**	—
Revaluation of non-current assets held for sale (see note 14)	**(5)**	(11)
	(20)	(19)

There is no current tax expense associated with these movements. A deferred tax credit of £3 million (2018: £3 million) arises as a result of the revaluation and write down of these properties (see note 10c).

Of the £4 million revaluation of non-current assets held for sale (2018: £11 million), £nil (2018: £5 million) related to properties held in non-current assets held for sale at the year end.

5. Non-underlying items (Continued)

e) Finance costs

During the year ended 30 September 2019, £1 million of unamortised fees relating to the term loan have been recognised in non-underlying finance costs following the extinguishment of this financial liability. There is no cash impact in the year from this write off.

Furthermore, following the disposal of a portfolio of commercial properties the proceeds that related to the sale of commercial properties within the Unique securitisation were used in the full prepayment of the Class A3 Notes and part prepayment of the Class A4 Notes together with the associated costs. These costs of £14 million (2018: £nil) have been recognised as a non-underlying finance costs and have been fully paid.

In the prior year, Unique securitised bonds with a nominal and book value of £4 million were purchased and cancelled for the equivalent price of £1.14 for each £1 of outstanding nominal value, generating a loss of £1 million.

Also in the prior year the Group concluded a consent solicitation exercise to amend certain terms within the Unique securitisation documents to allow greater flexibility over disposals of pubs that are not subject to the tie. This has been accounted for as a non-substantial modification and the total costs and cash outflow of £4 million have been included in the carrying value of the Unique bonds.

Furthermore, on 14 August 2018 the Group completed an increase and two-year extension of its £140 million existing revolving credit facility (RCF). The new maximum facility is £150 million and it is now available until August 2022. This has been accounted for as a non-substantial modification and the total costs and cash outflow of £1 million have been included in the carrying value of the RCF.

On 25 September 2018 the Group issued a new £150 million bond and at the same time a tender offer for the £97 million outstanding convertible bonds. The proceeds of the bond were received on 25 September 2018. The bond has a fixed coupon of 7.5% and is repayable in March 2024. The costs incurred of £4 million (£2 million cash outflow in the prior year and £2 million cash outflow in the current year) have been included in the carrying value of the debt.

In the prior year a tender offer for the convertible bonds was issued resulting in £95.4 million of the bonds being redeemed at a premium of 107% of their par value. Of the premium and fees associated with the tender offer totalling £7 million, £5 million was charged to the income statement in non-underlying finance costs in the year ended 30 September 2018, whilst £2 million was recognised in the other reserve representing the equity element of the redemption. On 27 September 2018 the Group issued an optional redemption notice to redeem the remaining £1.6 million of convertible bonds at par. This was completed during the year ended 30 September 2019.

A tax credit of £3 million (2018: £1 million) has been recognised on the non-underlying finance costs.

6. Operating profit

Operating profit is stated after charging:

	2019 £m	2018 £m
Cost of inventories	**261**	251
Other direct selling costs	**7**	8
Managed house running costs	**98**	70
Operating lease rentals	**22**	24
Other property costs	**13**	11
Administrative charges	**47**	44
Non-underlying administrative charges	**8**	5
	456	413
Depreciation and amortisation	**21**	19
	477	432

7. Auditor's remuneration

(This note is shown rounded to the nearest £000)

A description of the work of the Audit Committee is set out in the Audit Committee Report on pages 57 to 62 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor.

	2019	2018
	£000	£000
Group audit fees	**284**	224
Audit fees in respect of subsidiaries	**141**	120
Audit related assurance services	**30**	25
Other assurance services	**250**	170
Non-audit services	**24**	12
	729	551

Of the non-audit assurance related fees and non-audit services above of £274,000 (2018: £182,000), £152,000 (2018: £182,000) represents work required to be performed by the auditor under law, regulation or the terms of the Group's financing arrangements. Excluding these amounts, the ratio of non-audit fees to audit fees was 1:3.7 (2018: nil). Within other assurance services above is £250,000 in relation to the commercial property portfolio disposal (2018: £170,000 in relation to assurance reporting as part of the issuance of a new corporate bond).

Group audit fees include £182,000 (2018: £158,000) paid to the auditor for the audit of the Parent Company. Fees paid to the auditor in respect of non-audit services provided to the Parent Company are not required to be disclosed because the Group financial statements are only required to disclose such fees on a consolidated basis.

8. Staff costs

	Group		Company	
	2019	2018	2019	2018
	£m	£m	£m	£m
Wages and salaries	**62**	52	**36**	33
Social security costs	**7**	5	**5**	4
Other pension costs	**2**	2	**2**	2
	71	59	**43**	39

Included in wages and salaries is an expense relating to share-based payments of £3 million (2018: £2 million). All of this expense arises from transactions accounted for as equity-settled share-based payments (see note 29).

Other pension costs represents payments made into employees' individual defined contribution plans.

The average monthly number of employees comprised:

	Group		Company	
	2019 No.	2018 No.	2019 No.	2018 No.
Operations staff	**1,858**	1,558	**282**	261
Administration staff	**322**	314	**322**	314
	2,180	1,872	**604**	575

8. Staff costs (Continued)

Directors' remuneration is summarised below to the nearest £000 with full detail given in the directors' remuneration report.

	2019	2018
	£000	£000
Directors' remuneration*	**2,454**	2,192
Executive directors' pensions	**227**	223
Share-based payments†	**1,322**	903

* Comprises fees, salary, benefits and performance-related bonus.
† Fair value of share-based payments charged to the income statement during the year.

In addition to the above, gains arising on LTIPs that have vested and been exercised in the year by executive directors amounted to £466,000 (2018: £38,000).

9. Finance costs

	2019	2018
	£m	£m
Bank borrowings	**5**	4
Corporate bonds/securitised bonds	**132**	140
Other interest payable and finance costs	**1**	2
Interest receivable	**(1)**	—
Total underlying finance costs	**137**	146
Non-underlying finance costs:		
Other interest payable and finance costs	**15**	6
Non-underlying finance costs	**15**	6
Total net finance costs	**152**	152

10. Taxation

a) Total tax expense recognised in the income statement

	2019			2018		
	Underlying items	Non-underlying items	Total	Underlying items	Non-underlying items	Total
	£m	£m	£m	£m	£m	£m
Current tax						
UK corporation tax	**23**	**(4)**	**19**	23	(2)	21
Adjustments in respect of prior years	**(6)**	**—**	**(6)**	(4)	—	(4)
Total current tax	**17**	**(4)**	**13**	19	(2)	17
Deferred tax						
Origination and reversal of temporary differences	**3**	**(11)**	**(8)**	3	(9)	(6)
Adjustments in respect of prior years	**1**	**4**	**5**	—	4	4
Total deferred tax	**4**	**(7)**	**(3)**	3	(5)	(2)
Taxation	**21**	**(11)**	**10**	22	(7)	15

10. Taxation (Continued)

b) Tax charge reconciliation

	2019			2018		
	Underlying items	Non-underlying items	Total	Underlying items	Non-underlying items	Total
	£m	£m	£m	£m	£m	£m
Profit/(loss) before tax	**118**	**(317)**	**(199)**	122	(35)	87
Profit/(loss) before tax at 19.0% (2018: 19.0%)	**22**	**(60)**	**(38)**	23	(7)	16
Effects of:						
Non taxable expenses/(income) not deductible for tax purposes	**4**	**45#**	**49**	3	(3)	—
Movement in the deferred tax liability for retained properties due to indexation*	**—**	**—**	**—**	—	(1)	(1)
Adjustments in respect of prior years	**(5)**	**4**	**(1)**	(4)	4	—
Total tax charge/(credit) in the income statement	**21**	**(11)**	**10**	22	(7)	15

Non taxable expenses/(income) not deductible for tax purposes includes the goodwill impairment of £232 million (2018: £nil) at 19.0%.

* On transition to IFRS under IAS 12, a deferred tax liability was recognised on the balance sheet relating to the revaluation of the estate and gains previously rolled over, or due to be rolled over into other assets. The deferred tax liability that would have been in place at the time of business combinations that have occurred since 1 January 1999 resulted in the recognition of additional goodwill of £330 million as the fair value of the net assets acquired had been reduced. As this pre-acquisition liability changes due to capital gains indexation relief and disposals, the movement has been recognised in the income statement. The non-underlying indexation credit for the year ended 30 September 2019 is £nil (2018: £1 million). This has been classed as a non-underlying tax item because it does not relate to any income or expense recognised in the income statement in the same period.

c) Deferred tax recognised in the income statement

	2019			2018		
	Underlying items	Non-underlying items	Total	Underlying items	Non-underlying items	Total
	£m	£m	£m	£m	£m	£m
Temporary differences	**1**	**—**	**1**	1	—	1
Accelerated capital allowances	**3**	**(8)**	**(5)**	2	(3)	(1)
Deferred tax on the movement in valuation of the estate*	**—**	**(3)**	**(3)**	—	(5)	(5)
Movement in the deferred tax liability for retained properties due to indexation	**—**	**—**	**—**	—	(1)	(1)
Adjustments in respect of prior years	**—**	**4**	**4**	—	4	4
	4	**(7)**	**(3)**	3	(5)	(2)

* The £3 million (2018: £5 million) deferred tax credit on the movement in valuation of the pub estate includes a credit of £3 million (2018: £3 million), being the tax effect of the £20 million (2018: £19 million) non-underlying movement in the valuation of the pub estate and related assets in the income statement (see note 5), a tax charge of £nil (2018: £1 million) in respect of properties disposed, and a net charge of £nil (2018: credit of £3 million) for other tax differences based on a tax rate of 17% (2018: 17%).

d) Tax recognised directly in other comprehensive income

	2019	2018
	£m	£m
Tax related to share schemes recognised directly in equity	**2**	—
Movement in deferred tax liability related to revaluation of the estate	**(3)**	—
Tax charge	**(1)**	—

10. Taxation (Continued)

The movement in the deferred tax liability relating to revaluation of property and rolled over gains is calculated as follows:

	2019	2018
	£m	£m
Tax effect of revaluation of property and properties sold and awaiting sale	**(2)**	(2)
Movement in indexation during the year	**(1)**	2
Total movement as above	**(3)**	—

11. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the (loss)/profit attributable to ordinary shareholders for the year divided by the weighted average number of equity shares in issue during the year after excluding shares held by trusts relating to employee share options and shares held in treasury.

Underlying earnings per share, which the directors believe reflects the underlying performance of the Group, is based on profit attributable to ordinary shareholders adjusted for the effects of non-underlying items net of tax, divided by the weighted average number of equity shares in issue during the year after excluding shares held by trusts relating to employee share options and shares held in treasury.

The dilution adjustments for share options and the convertible bonds are reviewed independently and where they are anti-dilutive to the calculation of basic diluted earnings per share they are not included in the calculation of either basic diluted and underlying diluted earnings per share.

Following redemption of 98% of the nominal value of convertible bonds during the prior year with the remaining balance being redeemed during the current year, a pro-rated number of shares has been taken into account in the consideration of whether they are dilutive.

For the year ended 30 September 2019, the adjustment for share options is assessed as being anti-dilutive (2018: dilutive) which has resulted in an adjustment to the weighted average number of equity shares in issue during the year of nil shares (2018: 5.4 million shares).

For the year ended 30 September 2019, the adjustment for the convertible bonds is assessed as being anti-dilutive (2018: dilutive) which has resulted in an adjustment to (loss)/profit in the calculation of diluted earnings per share of £nil (2018: £5.7 million) for the post tax interest cost associated with the convertible bonds and an adjustment to the weighted average number of equity shares in issue during the period of nil shares (2018: 50.1 million shares).

	2019		2018	
	(Loss)/ earnings	Per share amount	Earnings	Per share amount
	£m	p	£m	p
Basic (loss)/earnings per share	(208.3)	(46.2)	71.7	15.2
Diluted (loss)/earnings per share	(208.3)	(46.2)	77.4	14.7
Underlying earnings per share	97.5	21.6	99.7	21.2
Underlying diluted earnings per share	97.5	21.6	105.4	20.0

	2019	2018
	m	m
Weighted average number of shares	450.6	470.9
Dilutive share options	—	5.4
Dilutive convertible loan note shares	—	50.1
Diluted weighted average number of shares	450.6	526.4

12. Goodwill

	2019	2018
	£m	£m
At 1 October	304	312
Allocated to disposals	(35)	(8)
Impairment	(232)	—
At 30 September	37	304

12. Goodwill (Continued)

Allocation to disposals

In accordance with IAS 36, goodwill is allocated to operations disposed of and accordingly, goodwill of £35 million (2018: £8 million) has been allocated to the 483 pubs (2018: 174 pubs) disposed of during the year.

Impairment testing

Goodwill acquired via business combinations is tested annually for impairment. At 30 September 2019 the goodwill has been allocated to the operating segments described in note 4. Within these segments the goodwill is tested for impairment by comparing the recoverable amount of each segment to the carrying amount. The recoverable amount is the higher of fair value less costs of disposal and value in use.

Within each segment value in use is calculated using budgeted EBITDA and forecasts of cash flows over a three year period, as prepared for the Board, adjusted to reflect the current segmentation of the estate. The three year cash flows continue to be risk adjusted to reflect a conservative outlook and are adjusted to reflect the forecast level of disposals. The key assumptions in these estimates are trading margin, rent projections and levels of working capital required to support trading. Key assumptions have been assigned values by management using estimates based on past experience and expectations of future changes in the market. These assumptions have been reviewed by the Board and are believed to be reasonable. Cash flows beyond three years are extrapolated using a growth rate identified as appropriate for each segment. The key driver to maintaining the growth rate is management's focus on selecting and supporting the best publicans, whilst meeting the challenges of changing consumer demand. The forecast cash flows are then discounted to give a value in use.

Based on external market trends the long-term growth rate used in the value in use calculation has been updated in the current year. The growth rate for the Publican Partnerships segment was 0.75% (2018: 2.00%), Commercial Properties segment was 1.50% (2018: 2.00%), Bermondsey Pub Company was 1.00% (2018: 2.00%), Craft Union Pub Company was 1.00% (2018: 2.00%) and Managed Investments was 1.00% (2018: 2.00%).

The discount rate used is based on the Group weighted average cost of capital (WACC), which has been risk adjusted to reflect current market factors which have not already been captured within the cash flows. In making this adjustment to the Group WACC, management have risk adjusted the cost of debt and the cost of equity by using an average of the highest three market risk premiums and Company betas obtained from four advisers at the year end date. The cost of equity has been further inflated by using a theoretical share price derived from peer group data. Management have then given further consideration to market indicators identified following the Stonegate Offer specifically the willingness of shareholders to realise their investment now at a discount to the net asset value of the Group. The pre-tax risk adjusted discount rate used in the testing at 30 September 2019 was therefore increased to 8.5% (2018: 7.8%), this has been reviewed and considered appropriate for each operating segment as risk factors are considered to be similar.

As at 30 September 2019, based on the updated inputs the impairment test has resulted in a total impairment of goodwill of £232 million (2018: £nil). This represents the full goodwill balance allocated to Publican Partnerships of £228 million and an impairment of £4 million recognised against the balance of goodwill allocated to the Bermondsey Pub Company segment.

The carrying value of goodwill remaining represents Publican Partnerships £nil (2018: £248 million), Commercial Properties £7 million (2018: £31 million), Bermondsey Pub Company £2 million (2018: £5 million), Craft Union Pub Company £22 million (2018: £16 million) and Managed Investments £6 million (2018: £4 million).

In the prior year there was headroom within the Publican Partnerships segment of £786 million and the growth rate needed to reduce to 0.2% or the pre-tax adjusted discount rate increase to 9.3% before any impairment was identified.

Within the Bermondsey Pub Company segment, the remaining balance of goodwill would be impaired if the growth rate reduced to 0.8% or the discount rate increased to 8.7%. In the prior year there was headroom within the Bermondsey Pub Company segment of £23 million and the growth rate needed to reduce to below zero or the pre-tax adjusted discount rate increase to 9.5% before any impairment was identified.

12. Goodwill (Continued)

There was headroom on the Commercial Properties segment of £23 million (2018: £82 million). The growth rate would need to be reduced to below zero (2018: 0.7%) or the pre-tax adjusted discount rate could increase to 10.1% (2018: 9.0%) before any impairment would be required.

There was headroom on the Craft Union Pub Company segment of £91 million (2018: £112 million). The growth rate would need to be reduced to below zero (2018: zero) or the pre-tax adjusted discount rate could increase to 10.7% (2018: 10.6%) before any impairment would be required.

There was headroom on the Managed Investments segment of £70 million (2018: £106 million). The growth rate would need to be reduced to below zero (2018: 0.5%) or the pre-tax adjusted discount rate could increase to 14.0% (2018: 17.7%) before any impairment would be required.

13. Intangible assets: operating lease premiums

	Group		Company	
	2019	2018	2019	2018
	£m	£m	£m	£m
Cost				
At 1 October	**14**	14	7	7
Revaluation on transfer to non-current assets held for sale:				
- Recognised in the income statement	**1**	—	—	—
Transfer to non-current assets held for sale	**(3)**	—	(2)	—
At 30 September 2019	**12**	14	5	7
Amortisation				
At 1 October	**5**	5	3	3
Transfers to non-current assets held for sale	**(1)**	—	(1)	—
At 30 September 2019	**4**	5	2	3
Net book value:				
At 30 September	**8**	9	3	4
At 1 October	**9**	9	4	4

Lease premiums are amortised on a straight line basis over the remaining life of the lease. The remaining operating lease terms vary from 1 to 91 years.

There are 36 properties within the Group and 22 properties within the Parent Company attracting operating lease premiums in 2019 (2018: 46 properties in the Group and 28 properties in the Parent Company).

14. Property, plant and equipment

	Group			
	Licensed land and buildings	Landlord's fixtures and fittings	Other assets	Total
	£m	£m	£m	£m
Cost or valuation				
At 1 October 2017	3,083	285	47	3,415
Additions	46	41	5	92
Revaluation:				
—Recognised in the statement of comprehensive income	8	—	—	8
—Recognised in the income statement	(23)	—	—	(23)
Net transfers to investment property	(81)	(8)	—	(89)
Revaluation of assets on transfer to non-current assets held for sale:				
—Recognised in the income statement	(11)	—	—	(11)
Net transfers to non-current assets held for sale	(37)	(9)	—	(46)
Disposals	(1)	(12)	(5)	(18)
At 1 October 2018	**2,984**	**297**	**47**	**3,328**
Additions	**45**	**44**	**8**	**97**
Revaluation:				
—Recognised in the statement of comprehensive income	**16**	**—**	**—**	**16**
—Recognised in the income statement	**(14)**	**—**	**—**	**(14)**
Revaluation of assets on transfer to investment property:				
—Recognised in the statement of comprehensive income	**(5)**	**—**	**—**	**(5)**
—Recognised in the income statement	**(1)**	**—**	**—**	**(1)**
Net transfers to investment property	**(56)**	**(5)**	**—**	**(61)**
Revaluation of assets on transfer to non-current assets held for sale:				
—Recognised in the income statement	**(5)**	**—**	**—**	**(5)**
Net transfers to non-current assets held for sale	**(38)**	**(8)**	**—**	**(46)**
Disposals	**—**	**(13)**	**(6)**	**(19)**
At 30 September 2019	**2,926**	**315**	**49**	**3,290**
Depreciation				
At 1 October 2017	16	59	18	93
Revaluation on transfer to investment property	—	(2)	—	(2)
Charge for the year	2*	14	3	19
Net transfers to non-current assets held for sale	(1)	(1)	—	(2)
Disposals	—	(5)	(3)	(8)
At 1 October 2018	**17**	**65**	**18**	**100**
Revaluation on transfer to investment property	**—**	**(1)**	**—**	**(1)**
Charge for the year	**1***	**16**	**4**	**21**
Net transfers to non-current assets held for sale	**—**	**(2)**	**—**	**(2)**
Disposals	**—**	**(8)**	**(5)**	**(13)**
At 30 September 2019	**18**	**70**	**17**	**105**
Net book value				
At 30 September 2019	**2,908**	**245**	**32**	**3,185**
At 30 September 2018	2,967	232	29	3,228

* Relates to finance lease amortisation

14. Property, plant and equipment (Continued)

	Company			
	Licensed land and buildings	Landlord's fixtures and fittings	Other assets	Total
	£m	£m	£m	£m
Cost or valuation				
At 1 October 2017	1,566	171	44	1,781
Additions	32	21	5	58
Revaluation:				
—Recognised in the income statement	(15)	—	—	(15)
Revaluation of assets on transfer to investment property:				
—Recognised in the statement of comprehensive income	(2)	—	—	(2)
Net transfers to investment property	(51)	(6)	—	(57)
Revaluation of assets on transfer to non-current assets held for sale:				
—Recognised in the statement of comprehensive income	(2)	—	—	(2)
—Recognised in the income statement	(7)	—	—	(7)
Net transfers to non-current assets held for sale	(17)	(5)	—	(22)
Disposals	—	(7)	(5)	(12)
At 1 October 2018	**1,504**	**174**	**44**	**1,722**
Additions	**33**	**19**	**7**	**59**
Revaluation:				
—Recognised in the statement of comprehensive income	**(7)**	**—**	**—**	**(7)**
—Recognised in the income statement	**(14)**	**—**	**—**	**(14)**
Revaluation of assets on transfer to investment property:				
—Recognised in the statement of comprehensive income	**(1)**	**—**	**—**	**(1)**
Net transfers to investment property	**(23)**	**(3)**	**—**	**(26)**
Revaluation of assets on transfer to non-current assets held for sale:				
—Recognised in the income statement	**(2)**	**—**	**—**	**(2)**
Net transfers to non-current assets held for sale	**(31)**	**(7)**	**—**	**(38)**
Disposals	**—**	**(7)**	**(5)**	**(12)**
At 30 September 2019	**1,459**	**176**	**46**	**1,681**
Depreciation				
At 1 October 2017	6	35	18	59
Net transfers to investment property	—	(1)	—	(1)
Charge for the year	1*	7	3	11
Net transfers to non-current assets held for sale	(1)	—	—	(1)
Disposals	—	(3)	(3)	(6)
At 1 October 2018	**6**	**38**	**18**	**62**
Charge for the year	**1***	**7**	**4**	**12**
Net transfers to non-current assets held for sale	**—**	**(1)**	**—**	**(1)**
Disposals	**—**	**(4)**	**(5)**	**(9)**
At 30 September 2019	**7**	**40**	**17**	**64**
Net book value				
At 30 September 2019	**1,452**	**136**	**29**	**1,617**
At 30 September 2018	1,498	136	26	1,660

* Relates to finance lease amortisation

14. Property, plant and equipment (Continued)

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

	Group	Company
	Licensed land and buildings	Licensed land and buildings
	£m	£m
At 30 September 2019		
Cost	**2,450**	**1,168**
Accumulated depreciation	**(31)**	**(18)**
Net book value	**2,419**	**1,150**
At 30 September 2018		
Cost	2,514	1,195
Accumulated depreciation	(30)	(18)
Net book value	2,484	1,177

Within the Group the carrying value of property held under finance leases at 30 September 2019 was £98 million (2018: £98 million). Additions during the year include £3 million to property held under finance leases (2018: £4 million). Within the Parent Company the carrying value of property held under finance leases at 30 September 2019 was £28 million (2018: £28 million). Additions during the year include £1 million to property held under finance leases (2018: £1 million).

At 30 September 2019, the Group had entered into contractual commitments to purchase £7 million (2018: £6 million) of property, plant and equipment. At 30 September 2019, the Parent Company had entered into contractual commitments to purchase £3 million (2018: £5 million) of property, plant and equipment.

15. Investment property

	Group	Company
	£m	£m
Valuation		
At 1 October 2017	270	119
Net transfers from property, plant and equipment	87	56
Revaluation	15	4
Net transfers to non-current assets held for sale	(4)	(4)
At 1 October 2018	**368**	**175**
Net transfers from property, plant and equipment	**60**	**26**
Revaluation	**(1)**	**—**
Net transfers to non-current assets held for sale	**(346)**	**(166)**
At 30 September 2019	**81**	**35**

Within the Group the carrying value of property held under finance leases at 30 September 2019 was £1 million (2018: £15 million). Additions during the year include £nil to property held under finance leases (2018: £nil). Within the Parent Company the carrying value of property held under finance leases at 30 September 2019 was £nil (2018: £9 million). Additions during the year include £nil to property held under finance leases (2018: £nil).

16. Non-current assets held for sale

	Group		Company	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
At 1 October	**13**	25	**7**	12
Net transfer from property, plant and equipment (see note 14)	**44**	44	**37**	21
Net transfer from investment property (see note 15)	**346**	4	**166**	4
Net transfer from intangible assets: operating lease premiums (see note 13)	**2**	—	**1**	—
Write down to fair value less costs to dispose	**(1)**	(1)	**—**	(1)
Disposals	**(389)**	(59)	**(204)**	(29)
At 30 September	**15**	13	**7**	7
Representing:				
Property, plant and equipment	**13**	13	**6**	7
Investment property	**2**	—	**1**	—
	15	13	**7**	7

Non-current assets held for sale comprises properties that have been identified by the Group for disposal as part of the continued disposal programme. The sale of all assets within this category is expected to be completed within one year of the balance sheet date.

At the end of the year non-current assets held for sale in the Group includes 50 properties (2018: 47 properties). Within the Group a balance of £2 million (2018: £1 million) in relation to these properties is held within the revaluation reserve representing revaluation surpluses.

At the end of the year non-current assets held for sale in the Parent Company includes 29 properties which are expected to be sold within the next year (2018: 25 properties). Within the Parent Company a balance of £nil (2018: £1 million) in relation to these properties is held within the revaluation reserve representing revaluation surpluses.

17. Property fair value measurements

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

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

Valuations are carried out on an annual basis at each year end date. With the exception of properties identified for disposal and transferred to non-current assets held for sale, the Group's properties were revalued as at 30 September 2019 by GVA Grimley Limited (t/a Avison Young) or Colliers International Property Advisers UK LLP, independent Chartered Surveyors, or by the internal Estates Director, Simon Millar MRICS, Chartered Surveyor. For further analysis of the pubs valued by valuer see table below.

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

Property assets held in property, plant and equipment were valued using fair maintainable trade income (FMT) capitalised at an appropriate rate of return (as defined within RICS Valuation—2017 Global Edition) or an equivalent multiple. This method of valuation involves making an assessment of the fair maintainable rent, wholesale and machine income that can be generated from the property assuming they are run by a reasonably efficient operator, taking into account future trading potential. This assessment of profit is then capitalised at an appropriate multiple to reflect the risks and rewards of the property. In determining the multiple to use, the valuers consider evidence of comparable market transactions. The resulting fair value of the pub represents the land and buildings and any fixed landlord's fixtures and fittings. The valuation of the managed pub assets is prepared using a consistent approach that effectively capitalises the net income attributable to the Group from operating the pub at an appropriate multiple.

17. Property fair value measurements (Continued)

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

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

The impact of the Group revaluation is as follows:

	2019	2018
	£m	£m
Income statement		
Revaluation loss charged as an impairment	**(44)**	(50)
Reversal of past impairments	**30**	27
Gains on revaluation of investment property	**3**	17
Losses on revaluation of investment property	**(4)**	(2)
	(15)	(8)

	2019	2018
	£m	£m
Revaluation reserve		
Unrealised surplus	**69**	69
Reversal of past revaluation surplus	**(53)**	(61)
	16	8

17. Property fair value measurements (Continued)

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

	Group					
Number of pub assets—within property, plant and equipment	Multiple applied to FMT					
FMT income bandings	**Total number**	**over 12 times**	**10 – 12 times**	**8 – 10 times**	**6 – 8 times**	**under 6 times**
At 30 September 2018						
more than £90,000 per annum	1,421	82	489	685	135	30
£60,000 to £90,000 per annum	1,523	67	535	744	145	32
less than £60,000 per annum	915	46	263	427	137	42
	3,859	195	1,287	1,856	417	104
At 30 September 2019						
more than £90,000 per annum	**1,430**	**85**	**457**	**689**	**167**	**32**
£60,000 to £90,000 per annum	**1,445**	**111**	**484**	**649**	**168**	**33**
less than £60,000 per annum	**819**	**68**	**248**	**351**	**105**	**47**
	3,694	**264**	**1,189**	**1,689**	**440**	**112**
Number of pub assets—within non-current assets held for sale						
FMT income bandings						
At 30 September 2018						
more than £90,000 per annum	—	—	—	—	—	—
£60,000 to £90,000 per annum	2	—	—	2	—	—
less than £60,000 per annum	45	12	1	4	7	21
	47	12	1	6	7	21
At 30 September 2019						
more than £90,000 per annum	**1**	**—**	**—**	**—**	**—**	**1**
£60,000 to £90,000 per annum	**3**	**1**	**1**	**—**	**—**	**1**
less than £60,000 per annum	**46**	**10**	**3**	**1**	**4**	**28**
	50	**11**	**4**	**1**	**4**	**30**

Number of assets—within investment property	Multiple applied to income					
Income bandings	**Total number**	**over 16 times**	**14 – 16 times**	**12 –14 times**	**10 –12 times**	**under 10 times**
At 30 September 2018						
more than £90,000 per annum	99	4	26	49	17	3
£60,000 to £90,000 per annum	130	8	27	67	21	7
less than £60,000 per annum	156	10	29	66	30	21
	385	22	82	182	68	31
At 30 September 2019						
more than £90,000 per annum	**17**	**—**	**3**	**10**	**3**	**1**
£60,000 to £90,000 per annum	**43**	**5**	**16**	**16**	**4**	**2**
less than £60,000 per annum	**29**	**2**	**5**	**15**	**2**	**5**
	89	**7**	**24**	**41**	**9**	**8**

17. Property fair value measurements (Continued)

Number of pub assets—within property, plant and equipment

FMT income bandings	Company					
	Multiple applied to FMT					
	Total number	over 12 times	10 – 12 times	8 – 10 times	6 – 8 times	under 6 times
At 30 September 2018						
more than £90,000 per annum	677	20	313	294	41	9
£60,000 to £90,000 per annum	808	23	403	339	33	10
less than £60,000 per annum	483	19	210	185	54	15
	1,968	62	926	818	128	34
At 30 September 2019						
more than £90,000 per annum	**664**	**30**	**285**	**303**	**37**	**9**
£60,000 to £90,000 per annum	**767**	**71**	**381**	**266**	**41**	**8**
less than £60,000 per annum	**450**	**50**	**201**	**144**	**39**	**16**
	1,881	**151**	**867**	**713**	**117**	**33**

Number of pub assets—within non-current assets held for sale

FMT income bandings						
At 30 September 2018						
more than £90,000 per annum	—	—	—	—	—	—
£60,000 to £90,000 per annum	—	—	—	—	—	—
less than £60,000 per annum	25	10	—	2	2	11
	25	10	—	2	2	11
At 30 September 2019						
more than £90,000 per annum	**—**	**—**	**—**	**—**	**—**	**—**
£60,000 to £90,000 per annum	**—**	**—**	**—**	**—**	**—**	**—**
less than £60,000 per annum	**29**	**5**	**—**	**1**	**2**	**21**
	29	**5**	**—**	**1**	**2**	**21**

Number of assets—within investment property

Income bandings	Multiple applied to income					
	Total number	over 16 times	14 – 16 times	12 –14 times	10 –12 times	under 10 times
At 30 September 2018						
more than £90,000 per annum	45	—	4	27	12	2
£60,000 to £90,000 per annum	79	3	9	50	13	4
less than £60,000 per annum	75	2	9	38	11	15
	199	5	22	115	36	21
At 30 September 2019						
more than £90,000 per annum	**9**	**—**	**1**	**8**	**—**	**—**
£60,000 to £90,000 per annum	**16**	**—**	**7**	**8**	**—**	**1**
less than £60,000 per annum	**17**	**1**	**3**	**9**	**—**	**4**
	42	**1**	**11**	**25**	**—**	**5**

Sensitivity analysis table

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

17. Property fair value measurements (Continued)

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

	Group		Company	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
FMT sensitivity				
+ 2.5%	**80**	89	**42**	46
- 2.5%	**(80)**	(89)	**(42)**	(46)
Multiple sensitivity				
+ 0.25	**84**	91	**42**	46
- 0.25	**(84)**	(91)	**(42)**	(46)

The properties used as security for the corporate bonds in Ei Group plc have been valued by GVA Grimley Limited (t/a Avison Young) (1,771 properties) and all properties held by Unique Pub Properties Limited (Unique) have been valued by Colliers International Property Advisers UK LLP (1,860 properties). The balance of the estate held in Ei Group plc (152 properties) have been valued by the internal Estates Director using RICS valuation guidelines. The results of this internal valuation have been compared to that of the external valuers, to ensure that the results are consistent.

The following table provides a reconciliation of property numbers:

At 30 September 2019	**Property, plant and equipment**	**Investment property**	**Non-current assets held for sale**	**Add operating leases^**	**Total properties**	**Less non-viable and closed properties**	**Total trading properties**
Properties valued by GVA Grimley Limited (t/a Avison Young)	**1,735**	**36**	**—**	**—**	**1,771**	**(8)**	**1,763**
Properties valued internally	**146**	**6**	**—**	**—**	**152**	**(1)**	**151**
Other	**—**	**—**	**29**	**188**	**217**	**(9)**	**208**
Total Parent Company	**1,881**	**42**	**29**	**188**	**2,140**	**(18)**	**2,122**
Properties valued by Colliers International Property Advisers UK LLP	**1,813**	**47**	**—**	**—**	**1,860**	**—**	**1,860**
Other	**—**	**—**	**21**	**20**	**41**	**(12)**	**29**
Total Group	**3,694**	**89**	**50**	**208**	**4,041**	**(30)**	**4,011**

At 30 September 2018	Property, plant and equipment	Investment property	Non-current assets held for sale	Add operating leases^	Total properties	Less non-viable and closed properties	Total trading properties
Properties valued by GVA Grimley Limited (t/a Avison Young)	1,803	145	—	—	1,948	(7)	1,941
Properties valued internally	165	54	—	—	219	(1)	218
Other	—	—	25	209	234	(17)	217
Total Parent Company	1,968	199	25	209	2,401	(25)	2,376
Properties valued by Colliers International Property Advisers UK LLP	1,891	186	—	—	2,077	(1)	2,076
Other	—	—	22	24	46	(13)	33
Total Group	3,859	385	47	233	4,524	(39)	4,485

^ not subject to valuation

18. Investments

	Company	
	2019	2018
	£m	£m
Cost or valuation		
At 1 October	**1,761**	1,790
Impairment	**(793)**	(29)
At 30 September	**968**	1,761

At the year end, the Company has carried out an impairment review of its investment in the Unique sub-group which involved calculating a value in use using forecast cash flows, a long-term growth rate and a suitable discount rate.

The growth rate used in the calculation has reduced in line with the goodwill calculation and was 0.75% (2018: 2.00%).

The discount rate used is based on the Group weighted average cost of capital (WACC), which has been risk adjusted to reflect current market factors which have not already been captured within the cash flows. In making this adjustment to the Group WACC, management have risk adjusted the cost of debt and the cost of equity by using an average of the highest three market risk premiums and Company betas obtained from four advisers at the year end date. The cost of equity has been further inflated by using a theoretical share price derived from peer group data. Management have then given further consideration to market indicators identified following the Stonegate Offer specifically the willingness of shareholders to realise their investment now at a discount to the net asset value of the Group. The pre-tax risk adjusted discount rate used in the testing at 30 September 2019 was therefore increased to 8.5% (2018: 7.8%).

This has resulted in an impairment of £793 million (2018: £29 million) resulting in the carrying value of investments at 30 September 2019 being £968 million (2018: £1,761 million).

As an assessment of theoretical sensitivities to this impairment review calculation, an increase of 0.25% in the discount rate used would result in a further impairment of £55 million (2018: £115 million) or a decrease of 0.25% in the discount rate used would result in a reduction in the impairment of £59 million (2018: headroom of £97 million). Similarly an increase of 0.25% in the long-term growth rate used would result in a reduction in the impairment of £58 million (2018: headroom of £109 million) or a decrease of 0.25% in the long-term growth rate used would result in a further impairment of £55 million (2018: £126 million).

The Parent Company's subsidiaries are listed in note 32.

19. Inventories

	Group		Company	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Goods for resale	**5**	3	**—**	—

20. Trade and other receivables

Trade receivables due in more than one year represents money owed by publicans for the sale of fixtures and fittings on deferred terms and part of the balance is due in more than one year.

	Group		Company	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Trade receivables	**3**	3	**2**	2

20. Trade and other receivables (Continued)

Trade and other receivables within current assets represents the following:

	Group		Company	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Trade receivables	**32**	40	**22**	29
Amounts owed by subsidiary undertakings	**—**	—	**678**	647
Prepayments and accrued income	**13**	11	**10**	8
Other receivables	**3**	4	**3**	1
	48	55	**713**	685

The ageing of total trade receivables at 30 September was as follows:

	Group		Company	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Not past due	**32**	40	**23**	29
Up to 30 days overdue	**3**	3	**1**	2
	35	43	**24**	31

Credit risk

There are no significant concentrations of credit risk within the Group. The Group is exposed to a small amount of credit risk that is primarily attributable to trade receivables and cash balances. The Group's objective is to minimise this risk by carrying out credit checks where appropriate. The amount of trade and other receivables included in the balance sheet are net of an expected credit loss (ECL) provision. The Group has adopted the simplified impairment model to measure the expected lifetime credit losses on its trade receivables. Using a provision matrix the Group analyses its historic bad debt experience to create an ageing profile which it then applies to its trade receivables balance as at the reporting date. The Group writes off its trade receivables when it has no reasonable expectation of recovery of the debt.

Amounts owed by subsidiary undertakings have been assessed for ECLs on a general basis under IFRS 9. The Company recognises a provision on this basis when the carrying value of the asset is not supported by the collateral available.

At 30 September 2019 the value of deposits held by the Group is £26 million (2018: £32 million) and by the Parent Company is £16 million (2018: £19 million). This balance is held on the balance sheet in other payables.

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

	Group		Company	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Provision as at 1 October	**2**	2	**2**	2
Increase in provision during the year	**1**	2	**1**	2
Provision utilised during the year	**(1)**	(1)	**(1)**	(1)
Provision released during the year	**(1)**	(1)	**(1)**	(1)
Provision as at 30 September	**1**	2	**1**	2

There are no indications as at 30 September 2019 that debtors will not meet their payment obligations in respect of the amount of trade receivables recognised in the balance sheet that are neither past due nor impaired. The maximum amount of exposure to credit risk is the carrying value of trade receivables. The Group's credit risk on liquid funds is limited because the Group only invests with banks and financial institutions with high credit ratings.

21. Trade and other payables

	Group		Company	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Trade payables	**47**	46	**44**	43
Amounts due to subsidiary undertakings	**—**	—	**89**	77
Accruals and deferred income	**112**	114	**83**	85
Other payables	**37**	47	**21**	26
	196	207	**237**	231

At 30 September 2019 the value of deposits held by the Group in other payables is £26 million (2018: £32 million) and by the Parent Company is £16 million (2018: £19 million).

22. Financial assets and liabilities

	Group		Company	
	2019	2018	**2019**	2018
Financial assets	**£m**	£m	**£m**	£m
Current				
Other loans receivable	**1**	3	**1**	3
	1	3	**1**	3
Non-current				
Other loans receivable	**1**	—	**1**	—
Loans due from subsidiary undertakings (see note 32)	**—**	—	**22**	14
	1	—	**23**	14
Total financial assets	**2**	3	**24**	17

	Group		Company	
	2019	2018	**2019**	2018
Financial liabilities	**£m**	£m	**£m**	£m
Current				
Corporate bonds	**—**	102	**—**	100
Securitised bonds	**19**	84	**—**	—
Loans due to subsidiary undertakings (see note 32)	**—**	—	**—**	2
	19	186	**—**	102
Non-current				
Bank borrowings	**(1)**	12	**(1)**	12
Corporate bonds	**1,168**	1,167	**1,168**	1,167
Securitised bonds	**675**	824	**—**	—
Finance lease payables	**3**	3	**1**	1
	1,845	2,006	**1,168**	1,180
Total financial liabilities	**1,864**	2,192	**1,168**	1,282

'Bank borrowings' refers to the revolving credit facility (see table opposite).

'Corporate bonds' refers to secured and unsecured bonds and an unsecured convertible bond (see table opposite).

'Securitised bonds' refers to secured bonds (see table opposite).

Fair values

The corporate bonds and securitised bonds were valued at fair value as at 30 September by J C Rathbone, independent valuers. The fair value of the corporate bonds and securitised bonds is measured at market price and are therefore evaluated to be level 1 in the fair value hierarchy described in note 3.

22. Financial assets and liabilities (Continued)

Management assessed that cash and short-term deposits, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

The fair value of the Group's bank borrowings, evaluated to be level 2 in the fair value hierarchy described in note 3, is not deemed to be materially different to the nominal value if it had been determined by using the discounted cash flow method using a discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 30 September 2019 was also assessed to be insignificant.

The nominal, book and fair values of financial assets and liabilities have been analysed into categories as below:

	Group						
	Interest rate	**2019 Nominal value**	**2019 Book value**	**2019 Fair value**	2018 Nominal value	2018 Book value	2018 Fair value
		£m	**£m**	**£m**	£m	£m	£m
Bank borrowings:							
Revolving credit facility	LIBOR +3.0%	**—**	**(1)**	**—**	15	12	15
		—	**(1)**	**—**	15	12	15
Corporate bonds:							
Secured bond—issued 9 May 2000	6.875%	**125**	**125**	**128**	125	125	138
Secured bond—issued 15 February 2001	6.875%	**125**	**125**	**129**	125	125	136
Secured bond—issued 26 February 2002	6.375%	**275**	**273**	**283**	275	273	307
Secured bond—issued 3 March 2003	6.5%	**—**	**—**	**—**	100	100	101
Secured bond—issued 7 October 2014	6.0%	**250**	**248**	**256**	250	248	271
Secured bond—issued 4 November 2016	6.375%	**250**	**250**	**257**	250	250	259
Unsecured bond—issued 25 September 2018	7.5%	**150**	**147**	**161**	150	146	153
Unsecured convertible bond—issued 10 September 2013	3.5%	—	—	—	2	2	2
		1,175	**1,168**	**1,214**	1,277	1,269	1,367
Securitised bonds:							
A3—issued 30 March 1999	6.542%	**—**	**—**	**—**	168	168	176
A4—issued 20 September 2002	5.659%	**276**	**274**	**314**	321	319	356
M—issued 30 March 1999	7.395%	**225**	**228**	**259**	225	229	250
N—issued 20 September 2002	6.464%	**190**	**192**	**219**	190	192	185
		691	**694**	**792**	904	908	967
		1,866	**1,861**	**2,006**	2,196	2,189	2,349
Finance lease payables (see note 24)		**—**	**3**	**3**	—	3	3
Total debt		**1,866**	**1,864**	**2,009**	2,196	2,192	2,352
Cash*		**(156)**	**(156)**		(158)	(158)	
Underlying net debt / net debt (see note 31)		**1,710**	**1,708**		2,038	2,034	

* Cash balances, in the current year and in the prior year, within the Group include £65 million held within a securitised reserve account. Withdrawals can only be made from this account with the consent of the securitisation Trustee.

The nominal value of financial assets and liabilities is the principal amount.

22. Financial assets and liabilities (Continued)

The book value of financial assets and liabilities includes unamortised fees, fair value adjustments made on acquisition and excludes the value ascribed to the equity element of the convertible loan note.

	Company						
	Interest rate	**2019 Nominal value**	**2019 Book value**	**2019 Fair value**	2018 Nominal value	2018 Book value	2018 Fair value
		£m	**£m**	**£m**	£m	£m	£m
Bank borrowings:							
Revolving credit facility	LIBOR +3.0%	**—**	**(1)**	**—**	15	12	15
		—	**(1)**	**—**	15	12	15
Corporate bonds:							
Secured bond—issued 9 May 2000	6.875%	**125**	**125**	**128**	125	125	138
Secured bond—issued 15 February 2001	6.875%	**125**	**125**	**129**	125	125	136
Secured bond—issued 26 February 2002	6.375%	**275**	**273**	**283**	275	273	307
Secured bond—issued 3 March 2003	6.5%	**—**	**—**	**—**	100	100	101
Secured bond—issued 7 October 2014	6.0%	**250**	**248**	**256**	250	248	271
Secured bond—issued 4 November 2016	6.375%	**250**	**250**	**257**	250	250	259
Unsecured bond—issued 25 September 2018	7.5%	**150**	**147**	**161**	150	146	153
		1,175	**1,168**	**1,214**	1,275	1,267	1,365
		1,175	**1,167**	**1,214**	1,290	1,279	1,380
Finance lease payables (see note 24)		**—**	**1**	**1**	—	1	1
Intercompany:							
Amounts owed to subsidiary undertakings		**—**	**—**	**—**	2	2	2
Total debt		**1,175**	**1,168**	**1,215**	1,292	1,282	1,383
Cash		**(27)**	**(27)**		(18)	(18)	
Underlying net debt / net debt		**1,148**	**1,141**		1,274	1,264	

The bank borrowings, corporate bonds and securitised bonds are held at amortised cost. Finance lease payables represent the present value of future minimum lease payments. Other categories of financial instruments include trade receivables and trade payables. However there is no difference between the book value and fair value of these items.

Bank borrowings

There is in place a non-amortising revolving credit facility (RCF) with a total facility of £150 million available through to August 2022, attracting interest at 3% above LIBOR on the drawn balance.

The Group also had a committed term loan bank facility of £50 million which was available for drawing until December 2018 with repayment of the amount drawn due by July 2020. This loan was £35 million drawn, repaid and then the facility was cancelled during the current year.

Corporate bonds

On 6 December 2018 £100 million of corporate bonds were repaid at par at maturity from available resources including the RCF bank facility and bank term loan.

On 10 September 2013 Enterprise Funding Limited (the Issuer) issued a £97 million 3.5% guaranteed convertible bond due 2020 (the bond) at par. The Parent Company had unconditionally and irrevocably guaranteed the due and punctual performance by the Issuer of all of its obligations (including payments) in respect of the bond. The obligations of the Parent Company, as guarantor, constitute direct, unsubordinated, unconditional and unsecured obligations of the Parent Company.

22. Financial assets and liabilities (Continued)

Subject to the terms, the bond was convertible into preference shares of the Issuer which were automatically transferred to the Parent Company in exchange for ordinary shares in the Parent Company. The bond converted at a premium of 35% to the share price on 10 September 2013 of 141.5p, which means that the bond was convertible based on an exchange share price of 191.0p into 50.8 million ordinary shares. The exchange share price would have been adjusted on the happening of certain events, including the payment of a dividend.

In accordance with the Group's accounting policy for convertible financial instruments, the proceeds received from the convertible bond issue were split, with an initial £75 million recorded as a liability and £22 million recorded within equity, stated net of costs of £2 million and £1 million respectively. The difference between the effective interest charged and the actual interest paid is added to the liability element over the life of the convertible bonds.

On 26 September 2018 the Group redeemed and cancelled £95.4 million of the convertible bonds at a purchase price of 107% of their par value. On 27 September 2018 the Group issued an optional redemption notice to redeem the remaining £1.6 million of convertible bonds at par. This was completed during the year ended 30 September 2019.

On 25 September 2018 the Group issued a £150 million unsecured corporate bond with a coupon of 7.5% maturing in 2024. Although the holders of these bonds have no security over Group properties they do benefit from a shared share pledge over Unique Pubs Limited.

Securitised bonds

Following the disposal of a portfolio of commercial properties on 14 March 2019 as explained in more detail in note 5, the proceeds that related to the sale of commercial properties within the Unique securitisation were used in full prepayment of the Class A3 Notes and in part prepayment of the Class A4 Notes together with the associated costs.

During the year the Group has made scheduled repayments on the Unique A3 and A4 securitised bonds which together with the prepayment made with the disposal proceeds from the commercial properties portfolio sold in March 2019, leaves £691 million outstanding at the year end. At 30 September 2019 the Group was £199 million ahead of the amortisation schedule through early repayment and market purchases.

Intercompany

The amount owed to subsidiary undertakings related to the issue of the convertible bonds in Enterprise Funding Limited, these proceeds had been on-loaned to Ei Group plc on the same terms with an amount recorded in equity and an amount recorded as a liability. On redemption of these bonds as explained above the intercompany loan was also redeemed.

Loans due from subsidiary undertakings have been assessed for ECLs on a general basis under IFRS 9. The Company recognises a provision on this basis when the carrying value of the asset is not supported by the collateral available.

Financial instruments and risk

The Group's financial instruments comprise bank borrowings, corporate bonds, securitised bonds and cash. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. There is no currency exposure as all transactions are in sterling. The Board reviews and agrees policies for managing each of these risks and they are summarised as follows:

Liquidity risk

The Group has exposure to liquidity risk, being the risk that payments cannot be made when they fall due. The Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of bank borrowings, corporate bonds and securitised bonds.

22. Financial assets and liabilities (Continued)

This objective is achieved through the following processes:

- regular cash flow forecasting and reporting through the treasury function;
- regular review of the Group's debt portfolio including maturities and repayment profile; and
- maintenance of undrawn bank facilities.

The proportion of nominal value of borrowings comprised:

	Group		Company	
	2019	2018	**2019**	2018
Bank borrowings	**—**	1%	**—**	1%
Corporate bonds	**63%**	58%	**100%**	99%
Securitised bonds	**37%**	41%	**—**	—

The maturity of the debt and interest payments is set out below:

	Group					
	2019			2018		
	Debt	**Interest**	**Total**	Debt	Interest	Total
	£m	**£m**	**£m**	£m	£m	£m
In more than five years	**726**	**204**	**930**	1,222	257	1,479
In more than two years but not more than five years	**938**	**231**	**1,169**	699	303	1,002
In more than one year but not more than two years	**183**	**114**	**297**	89	128	217
In one year or less or on demand	**19**	**121**	**140**	186	139	325
	1,866	**670**	**2,536**	2,196	827	3,023

	Company					
	2019			2018		
	Debt	**Interest**	**Total**	Debt	Interest	Total
	£m	**£m**	**£m**	£m	£m	£m
In more than five years	**400**	**128**	**528**	800	156	956
In more than two years but not more than five years	**650**	**141**	**791**	390	189	579
In more than one year but not more than two years	**125**	**72**	**197**	—	77	77
In one year or less or on demand	**—**	**77**	**77**	102	83	185
	1,175	**418**	**1,593**	1,292	505	1,797

The table above shows the contractual, undiscounted cash flows due in future periods to settle the debt and interest payments. The total amount of debt payable shown above differs from the total book value of debt of £1,864 million (2018: £2,192 million) in the Group and £1,168 million (2018: £1,282 million) in the Parent Company as the book value of debt includes unamortised fees, fair value adjustments made on acquisition and excludes the value ascribed to the equity element of the convertible loan note. The contractual maturity of trade and other payables is within one year.

An analysis of minimum lease payments due under finance leases is set out in note 24.

The Group's bank borrowings, corporate bonds and securitised bonds are repayable as follows:

Bank borrowings:	
Revolving credit facility	August 2022
Corporate bonds:	
£125 million 6.875% bond	May 2025
£125 million 6.875% bond	February 2021
£275 million 6.375% bond	September 2031
£249.5 million 6.0% bond	October 2023
£250 million 6.375% bond	February 2022
£150 million 7.5% bond	March 2024
Securitised bonds:	
A4	September 2013—June 2027
M	June 2021—March 2024
N	September 2027—March 2032

22. Financial assets and liabilities (Continued)

Details of undrawn borrowing facilities available at 30 September are as follows:

	Group		Company	
	2019	2018	**2019**	2018
Expiring:	**£m**	£m	**£m**	£m
In more than five years	**—**	100	**—**	—
In more than two years but not more than five years	**150**	183	**150**	135
In more than one year but not more than two years	**—**	54	**—**	50
In one year or less or on demand	**152**	—	**—**	—
	302	337	**150**	185

	Group		Company	
	2019	2018	**2019**	2018
The undrawn facilities relate to:	**£m**	£m	**£m**	£m
Undrawn liquidity facility	**152**	152	**—**	—
Undrawn element of revolving credit facility	**150**	135	**150**	135
Undrawn term loan facility	**—**	50	**—**	50

The liquidity facility is in respect of the Unique securitisation and is a renewable committed facility of £152 million (2018: £152 million). The liquidity facility is available to meet certain payment obligations falling due in the Unique securitisation to the extent that insufficient funds are received to meet such payments. The liquidity facility is due for renewal on 30 June 2020 and so has been classified as due in less than one year. Subsequent to the year end the facility has been further extended to 30 June 2021. The facility relates to the bonds that amortise over a period to 2032 and it reduces as the bonds amortise.

Interest rate risk

The Group borrows its corporate bonds and securitised bonds at a fixed rate. Bank borrowings and cash balances attract interest at a floating rate. The Group's objective is to manage exposure to changes in interest rates. This exposure is managed by borrowing at fixed rates on the majority of its debt. At 30 September 2019, the Group's borrowings were 99% fixed with an average interest rate of 6.4% for 6 years (2018: 99% fixed with an average interest rate of 6.4% for 6 years). The Parent Company's borrowings were 87% fixed with an average interest rate of 6.5% for 5 years (2018: 87% fixed with an average interest rate of 6.5% for 6 years).

Interest rate sensitivity

In estimating the sensitivity of the financial instruments we have assumed a reasonable potential change in interest rates. The method used assumes that all other variables are held constant to determine the impact on profit before tax. The analysis is for illustrative purposes only, as in practice market rates rarely change in isolation.

Actual results in the future may differ materially from these estimates due to the movements in the underlying transactions, actions taken to mitigate any potential losses, the interaction of more than one sensitivity occurring, and further developments in global financial markets. As such the below should not be considered as a projection of likely future gains and losses in these financial instruments.

If interest rates were to increase by 50 basis points the interest receivable in the Group would increase by £1 million (2018: £nil) and the interest payable would increase by £nil (2018: £nil). If interest rates were to decrease by 50 basis points the interest receivable in the Group would decrease by £1 million (2018: £nil) and the interest payable would decrease by £nil (2018: £nil).

If interest rates were to increase by 50 basis points the interest payable in the Parent Company would increase by £nil (2018 £nil). If interest rates were to decrease by 50 basis points the interest payable in the Parent Company would decrease by £nil (2018: £nil). There are no floating rate receivables in the Parent Company and therefore no exposure within interest receivable to movements in interest rates.

22. Financial assets and liabilities (Continued)

Security

The bank borrowings are secured by a security deed entered into by the companies which comprise the Group, excluding Enterprise Inns Holding Company Limited and its subsidiaries and Unique Pubs Limited and its subsidiaries. The lenders have a floating charge over all of the assets and undertakings of such Group companies. The floating charge ranks subsequent to the fixed charges created by the corporate bonds.

The total value of assets within the Group secured by way of a fixed or floating charge as at 30 September 2019 is property, plant and equipment £3,153 million (2018: £3,199 million), investment property £81 million (2018: £368 million) operating lease premiums £8 million (2018: £9 million) and non-current assets held for sale £15 million (2018: £13 million). The value of assets within the Parent Company secured by way of a fixed or floating charge as at 30 September 2019 is property, plant and equipment £1,588 million (2018: £1,634 million), investment property £35 million (2018: £175 million) operating lease premiums £3 million (2018: £4 million) and non-current assets held for sale £7 million (2018: £7 million).

The security pledged for the Group's debt is summarised below:

Debt instrument	Security
Bank borrowings	• First floating charge over the balance of properties in the Parent Company not already secured by a 1st fixed charge created by the corporate bonds. • Second floating charge over the properties secured by a 1st fixed charge created by the corporate bonds. • Share pledge over Unique Pubs Limited shared with holders of the £150 million unsecured bond.
Corporate bonds (excluding the unsecured convertible bond and the unsecured bond)	• First fixed charge over the 1,771 properties in the Parent Company valued by GVA Grimley Limited (t/a Avison Young) (see note 17). • Second floating charge over the balance of properties in the Parent Company.
Unsecured bond	• Share pledge over Unique Pubs Limited shared with the RCF bank syndicate members.
Securitised bonds	• Collectively over the whole securitisation the security incorporates a 1st fixed charge in favour of the Trustee over the Issuer's right, title, interest and benefit, present and future to all properties, cash, eligible investments and income generated by Unique Pub Properties Limited.

Covenants

The Group is subject to a number of financial covenants in relation to its borrowing facilities. There are three covenants that relate to the bank borrowings, which are tested quarterly. There is one leverage covenant and two asset valuation covenants. There is sufficient headroom on all three of these covenants.

There are two covenants that relate to the corporate bonds (excluding the unsecured bond); an asset value covenant and a net annual income covenant. At the year end there is an annual valuation of the estate and a review of the annual income for the properties secured under each of the corporate bonds. The valuation is undertaken by a firm of independent chartered surveyors. The directors certify the net annual income as part of an annual compliance exercise. In the event that property values or incomes have fallen, there may

22. Financial assets and liabilities (Continued)

be a requirement to add more properties to the security of the corporate bonds and any addition of new properties must be completed within 90 days of the year end. There is sufficient headroom on both of these covenants. There are no new covenants under the unsecured bond.

There are two covenants that relate to the securitised bonds which are tested at each quarter end. These covenants are based solely on the assets held within the securitised bonds and comprise a net asset covenant and a debt service cover covenant. There is sufficient headroom in both of these covenants.

The Group tests all of the above covenants on a regular basis and forecasts are prepared during the budgeting process. These are reviewed at Board level.

Change of control

All of the agreements in relation to bank borrowings and corporate bonds to which the Group is party, contain provisions that allow the counterparties to terminate funding in certain circumstances where there has been a change of control of the Parent Company. These are detailed below:

Agreement	Summary of change of control clause
Revolving credit facility agreement dated 24 October 2016 (amended 14 August 2018)	If any person or group of persons acting in concert gains control of the Company then the Company shall promptly notify the agents and lenders. If any lender so requires, it may cancel its commitments to the Company and require the Company to repay all loans outstanding to it.
£125 million 6.875% secured bonds due 2025 £125 million 6.875% secured bonds due 2021 £275 million 6.375% secured bonds due 2031 £249.5 million 6.0% secured bonds due 2023 £250 million 6.375% secured bonds due 2022	The terms and conditions of each of the secured bonds provide that following the occurrence of a restructuring event, which is defined in the terms and conditions to include: (i) any person or persons acting in concert becoming interested in more than 50% of the shares of the Company; or (ii) any person or group of connected persons acquiring control of the Company; or (iii) any person or persons acquiring the right to appoint more than 50% of the directors of the Company, the secured bonds must: (a) if they are not rated, after a written resolution of the bondholders, either be redeemed by the Company or the Company must successfully seek an investment grade rating for the secured bonds; or (b) if they are rated and such rating is below investment grade or later falls below investment grade, be redeemed by the Company.
£150 million 7.5% bonds due 2024	If any person or persons, acting together, acquire(s) or becomes entitled to control more than 50% of the votes that may ordinarily be cast on a poll at a general meeting of the Parent Company, the Issuer must make an offer to repurchase the bonds in cash at 101% of the principal amount together with any accrued and unpaid interest up to (but excluding) such date.

23. Capital disclosures and analysis of changes in net debt

The capital structure is managed to support the Group's objective of maximising long-term shareholder value through ready access to debt and capital markets, cost effective borrowing and flexibility to fund business and acquisition opportunities whilst maintaining appropriate leverage to optimise the cost of capital.

The capital structure of the Group is based upon management's judgement of the appropriate balancing of all key elements of its financial strategy in order to meet the Group's operational and strategic requirements. This includes a strategy on dividends, share buybacks and monitoring liquidity risk. The overall financing strategy of the Group is presented to the Board annually as part of the budgeting exercise.

24. Leases

The Group and the Parent Company as lessee

The Group and the Parent Company lease a proportion of their licensed estate from landlords under finance leases and operating leases. These leases have varying terms, escalation clauses and renewal rights.

Finance leases

Future minimum lease payments due under finance leases:

	Group		Company	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Future minimum lease payments due under finance leases:				
In less than one year	**—**	—	**—**	—
After one year but not more than five years	**2**	2	**1**	1
In more than five years	**17**	19	**6**	8
	19	21	**7**	9
Future finance lease interest	**(16)**	(18)	**(6)**	(8)
Present value of future minimum lease payments	**3**	3	**1**	1

The present value of future minimum lease payments is due in more than five years (2018: more than five years).

Properties that are leased from landlords under finance leases are let to tenants. Future minimum rentals receivable in the Group, from non-cancellable sub-leases on the above properties are £27 million (2018: £46 million). Future minimum rentals receivable in the Parent Company, from non-cancellable sub-leases on the above properties are £8 million (2018: £17 million).

Operating leases

	Group		Company	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Operating lease rentals recognised as an expense in the year	**20**	21	**19**	20

	Group		Company	
	2019	Restated* 2018	**2019**	Restated* 2018
	£m	£m	**£m**	£m
Future minimum lease payments due under operating leases:				
Within one year	**20**	21	**19**	20
After one year but not more than five years	**79**	81	**76**	78
In more than five years	**302**	327	**282**	304
	401	429	**377**	402

* As a result of the IFRS 16 analysis of the Group's leases it was identified that for certain leases the full lease term was not being appropriately reflected in the future minimum lease payments. Following this the comparatives have been restated to reflect the full future minimum lease payments. This resulted in an increase in the lease payments due in more than five years of £56 million in the Group and Parent Company.

24. Leases (Continued)

Properties that are leased from landlords under operating leases are let to tenants. Future minimum rentals receivable in the Group, from non-cancellable sub-leases on the above properties are £99 million (2018: £98 million). Future minimum rentals receivable in the Parent Company, from non-cancellable sub-leases on the above properties are £134 million (2018: £137 million).

The Group and Parent Company as lessor

The Group and the Parent Company lease their properties to tenants. The majority of lease agreements have terms of between one and 30 years and all are classified for accounting purposes as operating leases. Most of the leases with terms of over three years include RPI or CPI based rent adjustments and provision for rent reviews on either a three or five year basis.

The present value of future minimum lease rentals receivable under non-cancellable operating leases are as follows:

	Group		Company	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Future minimum lease rentals receivable under operating leases:				
Within one year	**104**	130	**74**	84
After one year but not more than five years	**267**	383	**182**	246
In more than five years	**278**	498	**189**	286
	649	1,011	**445**	616

Leases with future minimum lease rentals receivable under operating leases in more than five years within the Group have an average term of 13 years (2018: 13 years) remaining on their agreements and within the Parent Company have an average term of 13 years (2018: 14 years) remaining on their agreements.

25. Provisions

	Group		Company	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
At 1 October:				
Current	**1**	1	**1**	1
Non-current	**5**	4	**4**	3
	6	5	**5**	4
Movement during the year:				
Increase in provision during the year	**3**	3	**2**	2
Release of provision during the year	**(3)**	(2)	**(2)**	(1)
	—	1	**—**	1
At 30 September:				
Current	**1**	1	**1**	1
Non-current	**5**	5	**4**	4
	6	6	**5**	5

The provision in both the Group and Parent Company relates to future commitments under onerous lease agreements. The provision is expected to be utilised over the life of leases involved or as the properties are disposed. The remaining lease terms vary from 1 to 52 years.

26. Deferred tax

The deferred tax in the balance sheet relates to the following:

	Group		Company	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Unrealised surplus on revaluation of fixed assets and rolled over gains	**138**	134	**49**	48
Accelerated capital allowances	**39**	44	**25**	29
Share-based payments	**(3)**	(1)	**(3)**	(1)
Temporary differences	**(2)**	(3)	**—**	—
	172	174	**71**	76

The UK Government reduced the rate of corporation tax from 20% to 17% effective by 1 April 2020. Deferred taxation has been calculated based on the current substantively enacted rate of 17%. No further changes in the UK tax rate are anticipated.

The deferred tax provision for the unrealised surplus on the revaluation of fixed assets in the Group has moved during the year as follows:

	£m
Opening provision at 1 October 2018	**134**
Reduction in deferred tax liability due to movements from revaluation of the estate and disposals recognised in the income statement	**1**
Reduction in deferred tax liability recognised in other comprehensive income	**3**
Closing provision at 30 September 2019	**138**

The Group has not provided deferred tax in relation to temporary differences associated with undistributed earnings of subsidiaries on the basis that under current enacted law, no tax is payable on dividends payable and receivable within the Group.

27. Pension

The Group and the Parent Company make defined contribution payments to employees' own pension plans and these payments are charged to the income statement as incurred.

RetailLink Management Limited (a subsidiary company that has now been liquidated as part of a group reorganisation) established a pension plan for its employees in January 1999. The plan has a defined contribution and defined benefit scheme. The plan is now closed to new members and for the future accrual of benefits.

The plan is governed by the employment laws of the United Kingdom which require final salary payments to be adjusted for the consumer price index upon payment during retirement. The level of benefits provided depends on a member's length of service and salary at retirement age. The fund has a legal form of foundation and is governed by the Board of Pension Trustees. The Board of Trustees is responsible for the administration of the plan assets and for the definition of the investment strategy.

In April 2014, the Trustees of the RetailLink Management Limited pension plan (the Plan) and the Company committed to a bulk annuity buy out of the defined benefit section of the Plan, crystallising a liability of £10 million payable through a deferred payment schedule over a four year period. The initial stage of this process involved the Trustees using the Plan's defined benefit section assets to purchase a bulk annuity policy from Legal & General Assurance Society Limited (LGAS). The policies commenced with effect from 30 April 2014 and are being held as investments of the Plan. The Trustees have completed calculations to determine adjustments required to members benefits in respect of GMP equalisation and sought premium information from LGAS. At that point, subject to agreement to and payment of the premium and dispatching discharge and closing notices to the members, the final wind-up arrangements of the Plan can conclude. Thereafter the Company will no longer retain any responsibilities or obligations to the members of the Plan.

27. Pension (Continued)

In view of the relative insignificance of the pension scheme, both on a gross and net basis, the Group has elected to only present summarised disclosures to one decimal place in respect of the scheme.

	2019	2018
	£m	£m
Assets and liabilities of the plan		
Fair value of plan assets:		
Cash	**0.1**	0.1
Assets held by insurance companies	**43.3**	33.7
	43.4	33.8
Present value of plan liabilities	**(43.4)**	(33.8)
Provision for settlement	**(0.7)**	(0.8)
Net pension deficit	**(0.7)**	(0.8)

	2019	2018
	£m	£m
Recognised in the balance sheet as:		
Current liabilities	**(0.7)**	(0.8)
	(0.7)	(0.8)

	2019	2018
	£m	£m
Movement in deficit during the year		
Net deficit at the start of the year	**(0.8)**	(2.4)
Deferred premium paid	**—**	1.6
Fees paid	**0.1**	—
Net pension deficit at the end of the year	**(0.7)**	(0.8)

Following the decision by the Trustees to wind up the plan in July 2018, and communication of this intention to the members, a constructive obligation has arose in the prior year in order to secure final settlement. An amount of £0.7 million (2018: £0.8 million) has been included within the net pension deficit, being the estimated costs required in respect of final settlement. The winding up of the scheme remains ongoing at 30 September 2019.

	2019	2018
	%	%
The principal assumptions made by the actuaries were:		
Rate of increase in pension payments	**3.55**	3.60
Rate of increase of pensions in deferment	**2.05**	2.20
Discount rate	**1.80**	2.95
Inflation assumption	**3.05**	3.20
Longevity at age 65 for current pensioners		
Men	**23 years**	23 years
Women	**25 years**	25 years
Longevity at age 65 for future pensioners		
Men	**25 years**	25 years
Women	**27 years**	27 years

The mortality tables used to value the plan's liabilities are S2PA light table (-1 year age rating for females) with CMI 2018 projections, a long-term rate of improvement of 1.25% and a smoothing parameter. These tables give a life expectancy as set out above.

Due to the nature of the pension deficit being the deferred payment plan outstanding for the bulk annuity policy, sensitivity analysis is not relevant and has therefore not been disclosed.

27. Pension (Continued)

The Company will not be making any contributions to the defined benefit plan in future years following the bulk annuity buy out.

28. Share capital

Authorised:

	2019 No.	£m	2018 No.	£m
Ordinary shares of 2.5p each	**1,000,000,000**	**25**	1,000,000,000	25

Allotted, called up and fully paid:

	2019 No.	£m	2018 No.	£m
Ordinary shares of 2.5p each	**487,910,075**	**12**	516,793,318	13

Ordinary shares carry no right to fixed income. Holders of ordinary shares are entitled to vote at meetings.

At 30 September 2019, the Group owned 50 million of its own shares as treasury shares with a nominal value of £1 million and a market value of £141 million (2018: 50 million shares, nominal value £1 million, market value £83 million). In addition, at 30 September 2019 the Group held 1,438,136 shares with a nominal value of £0.04 million and a market value of £4 million (2018: 1,134,828 shares, nominal value £0.03 million, market value £2 million). These shares are held by the Employee Benefit Trust and are shares used to satisfy awards made under the Company incentive plans and other share option schemes (note 29).

During the year the Group made on-market purchases in respect of 29 million (2018: 15 million) of its own ordinary shares for an aggregate consideration of £58 million (2018: £20 million) (excluding costs) as part of its share buyback plan. These shares were cancelled. Transaction costs of £0.4 million (2018: £0.1 million) have been accounted for directly in equity in the profit and loss reserve.

29. Share-based payments

The Group operates share-based payment schemes for both directors and other employees. Details of the Deferred Share Award, Long-Term Incentive Plan (LTIP) and the Restricted Share Plan (RSP) which form part of the remuneration of the executive directors are given in the directors' remuneration report on pages 65 to 78.

The Group also operates a Share Incentive Plan (SIP), an Employee Share Option Scheme (ESOS), and a Save As You Earn Scheme (SAYE).

A total expense of £3 million (2018: £2 million) has been incurred in the year in relation to share-based payments. This expense relates wholly to the equity-settled schemes described above.

Share Incentive Plan

The SIP is open to all Parent Company and Bermondsey Pub Company employees. At times determined by the Parent Company, employees may allocate the lower of £1,800 or 10% of pre-tax salary to purchase shares out of their salary. The Board may also decide to award matching shares. The shares are held in trust on behalf of the employee. If shares are removed from trust within three years, any allocation of matching shares may be lost. Shares can be transferred tax-free to employees after a period of five years. Matching shares were awarded every year from 2005 to 2019.

The cost of the matching shares is being spread over the three year vesting period of the scheme.

29. Share-based payments (Continued)

Details of the number of matching shares held in trust during the year are as follows:

	2019 Number of shares	2018 Number of shares
Outstanding at beginning of year	**349,558**	367,587
Granted	**119,024**	129,358
Vested	**(151,655)**	(135,283)
Forfeited	**(20,487)**	(12,104)
Outstanding at end of year	**296,440**	349,558
Weighted average remaining contractual life	**1.2 years**	1.2 years

Employee Share Option Scheme

The ESOS is open to all employees. Share options are awarded to employees at the discretion of the Board. Options will normally vest after three years if an employee remains in service and if EPS targets are met. There were no options granted during the current or prior year. Options may normally only be exercised during the period of seven years commencing on the third anniversary of the date of grant of the option. Options will usually be settled using ordinary shares held by the Employee Benefit Trust.

Details of the share options outstanding during the year are as follows:

	2019		2018	
	Number of share options	**Weighted average exercise price**	Number of share options	Weighted average exercise price
		£		£
Outstanding at beginning of year	**147,125**	**0.37**	240,622	0.37
Exercised	**(74,575)**	**0.37**	(69,925)	0.37
Forfeited	**(2,775)**	**0.37**	(23,572)	0.37
Outstanding at end of year	**69,775**	**0.37**	147,125	0.37
Weighted average remaining contractual life	**2.2 years**		3.2 years	

Options outstanding at 30 September 2019 comprise the following:

Exercise date	**Number of share options**	**Exercise price £**
Exercisable:		
12/12/14—12/12/21	69,775	0.37

SAYE scheme

The SAYE scheme is open to executive directors and employees at the discretion of the Board. Participants contract to save a fixed amount each month with a savings institution for a period of five years. At the end of the savings term, participants are given the option to purchase shares at a price set before the savings began. The option price will be not less than 80% of the market value of a share on the date that participants are invited to take part in the scheme, or the nominal value of a share, if higher. Options will usually be settled using ordinary shares held by the Employee Benefit Trust and will usually be exercisable for six months after the fifth anniversary of the commencement of the savings contract.

29. Share-based payments (Continued)

Details of the share options outstanding during the year are as follows:

	2019		2018	
	Number of share options	**Weighted average exercise price**	Number of share options	Weighted average exercise price
		£		£
Outstanding at beginning of year	**3,013,733**	**0.80**	3,327,008	0.80
Granted	**340,754**	**1.50**	494,201	1.16
Exercised	**(451,128)**	**0.70**	(475,069)	0.63
Forfeited	**(312,347)**	**1.09**	(332,407)	0.86
Outstanding at end of year	**2,591,012**	**0.96**	3,013,733	0.88
Weighted average remaining contractual life	**2.5 years**		3.0 years	

Options outstanding at 30 September 2019 comprise the following:

Exercise date	**Number of share options**	**Exercise price £**
01/02/20—31/07/20	713,413	0.87
01/02/21—31/07/21	424,740	0.86
01/02/22—31/07/22	812,913	0.83
01/02/23—31/07/23	357,421	1.16
01/02/24—31/07/24	282,525	1.50
	2,591,012	

The weighted average fair value of options granted during the year under the SAYE scheme was £0.80 (2018: £0.49).

Deferred Share Award and LTIP

Executive directors and other members of the senior management team are eligible to participate in a Deferred Share Award and an LTIP plan. A summary of the rules of these schemes along with details of shares that have been granted to the executive directors and are outstanding in relation to them is included in the directors' remuneration report on pages 65 to 78.

Shares awarded vest over between one and three years from fulfilment of performance targets.

Details of the total number of share options outstanding during the year are as follows:

	2019		2018	
	LTIP Number of share options	**Deferred Share Award Number of share options**	LTIP Number of share options	Deferred Share Award Number of share options
Outstanding at beginning of year	**5,201,931**	**2,869,338**	5,534,552	3,583,015
Granted	**—**	**713,505**	2,096,397	768,811
Exercised	**(481,200)**	**(299,088)**	(40,366)	(974,363)
Lapsed	**(394,561)**	**—**	(2,232,361)	—
Forfeited	**(32,654)**	**(282,857)**	(156,291)	(508,125)
Outstanding at end of year	**4,293,516**	**3,000,898**	5,201,931	2,869,338
Weighted average remaining contractual life	**2.0 years**	**2.5 years**	2.8 years	2.2 years

The share price at which the number of shares granted under the Deferred Share Award scheme is calculated, is not confirmed until after the date of the approval of the accounts. The maximum number of Deferred Share Award shares granted during the year is therefore estimated using the closing share price on 30 September 2019. The number of shares granted in 2018 has been amended to show the actual number granted in 2018.

29. Share-based payments (Continued)

Where the conditions are not met the shares are released in the forfeited/released line.

Directors and other members of the management team eligible to participate in the Deferred Share Award pay £1 to exercise awards granted under the Deferred Share Award and the LTIP. This is a one-off charge. All of the shares outstanding at 30 September 2019 are not yet exercisable.

The weighted average fair value of shares granted during the year under the Deferred Share Award was £2.81 (2018: £1.85 restated for actual number of shares granted in 2019). There were no LTIP grants during the year (2018: weighted average fair value of shares granted under the LTIP was £1.00).

RSP

During the year the Company proposed and the shareholders approved a Restricted Share Plan (RSP) for executive directors. A summary of the rules of the plan is included in the directors' remuneration report on pages 65 to 78.

Shares granted under the RSP will vest in three equal tranches after three, four and five years, although all vested shares must be held to the end of year five. Vested shares are exercisable until the tenth anniversary of grant. There are no performance criteria associated with the award but there are performance underpins that are required to be met before vesting can be confirmed for each of the periods.

Details of the number of share options outstanding during the year are as follows:

	2019 Number of share options	2018 Number of share options
Outstanding at beginning of year	**—**	—
Granted	**400,478**	—
Outstanding at end of year	**400,478**	—
Weighted average remaining contractual life	**9.5 years**	—

The share options granted under the RSP are nil-cost options. All of the shares outstanding at 30 September 2019 are not yet exercisable.

The weighted average fair value of shares granted during the year under the RSP was £1.99 (2018: nil).

The weighted average share price on exercise of shares and share options under all schemes during the year was £2.09 (2018: £1.41).

Fair value of share schemes

The fair value of equity-settled share options and share awards granted is estimated at the date of grant using share option valuation models. The SAYE and Deferred Share Award schemes are valued using the Black-Scholes model. The element of the LTIP scheme that relates to non-market conditions is valued using the Black-Scholes model. The element of the LTIP that includes market conditions is valued using the Monte-Carlo Simulation model.

The following tables list the inputs to the models for options and shares granted during the year:

	SAYE		**Deferred Share Award**		**RSP**	**LTIP**
Weighted average:	**2019**	2018	**2019**	2018+	**2019**	2018
Share price (£)	**2.02**	1.37	**2.81**	1.66	**1.99**	1.31
Exercise price (£)	**1.50**	1.16	**0.00**	0.00	**0.00**	0.00
Dividend yield	**0.00%**	0.00%	**0.00%**	0.00%	**0.00%**	0.00%
Expected volatility	**30%**	32%	**23–29%**	33–34%	**28–30%**	33–35%
Risk-free interest rate	**0.90%**	0.75%	**0.70–0.79%**	0.19–0.33%	**0.78–0.89%**	0.33–0.45%
Expected life of option (years)	**5**	5	**2–4~**	2–4~	**3–10#**	3–5*

29. Share-based payments (Continued)

\+ The share price at which the number of shares granted under the Deferred Share Award scheme is calculated is not confirmed until after the date of the approval of the accounts. The maximum number of Deferred Share Award shares granted during the year is therefore estimated using the closing share price on 30 September 2019. The 2018 weighted averages have been amended to reflect the actual number of shares granted in 2019.

~ The Deferred Share Award for the executive directors vests in four years (2018: four years), the Deferred Share Award for the executive management vests in two equal tranches after two and three years (2018: two and three years) and the Deferred Share Award for the other members of the senior team vests after four years (2018: four years).

The RSP vests in three equal tranches after three, four and five years although must continue to be held until the end of the fifth year and it is then exercisable for a further period.

* The LTIP vests in three equal tranches after three, four and five years.

Expected share-price volatility is based on historic volatility over the same period of time as the vesting period of the option. For the LTIP the expected life of an option is based on historical data.

The LTIP will only vest in full if a TSR target is met. This is a market condition and the TSR performance criteria has therefore been taken into account when calculating the fair value of the options granted under the LTIP. These conditions have been incorporated into the Monte-Carlo Simulation model which is used to fair value the TSR element of the scheme.

30. Reserves

Share premium account

This reserve represents the amount of proceeds received for shares in excess of their nominal value of 2.5 pence per share.

Revaluation reserve

This reserve shows the surplus generated on revaluation of the estate. It represents the amount by which the fair value of the estate exceeds its historic cost net of related tax.

Capital redemption reserve

This reserve arose on the repurchase and cancellation of own shares in 1995/96, 2005/06, 2006/07, 2007/08, 2015/16, 2016/17 and 2017/18.

Merger reserve

This reserve arose as a consequence of the acquisition of Century Inns plc in 1998/99.

Treasury share reserve

This reserve shows the cost of own shares purchased by the Parent Company and held as treasury shares. These shares can be cancelled or re-issued.

Other reserve

In the Group this comprises the cost of shares in the Parent Company that are held by the Employee Benefit Trust. In the prior year it also included the equity component of the convertible bond. The shares in the Employee Benefit Trust are used to satisfy awards made under share incentive plans (note 30).

In the Parent Company this comprises the cost of shares in the Company that are held by the Employee Benefit Trust and the increase in fair value of subsidiaries recorded at fair value under IAS 27 and the dividends received from Enterprise Pubs Five Limited that cannot be distributed outside the Group. In the prior year it also included the equity component of the on-loan of funds raised in Enterprise Funding Limited (now dissolved) through the convertible bond.

In the year ended 30 September 2019 £202 million (2018: £29 million) has been reclassified from other reserves to the profit and loss account in the Parent Company following an impairment to the carrying value of investments.

31. Additional cash flow information

a) Reconciliation of net cash flow to movement in net debt

	2019	2018
	£m	£m
(Decrease)/increase in cash in the year	**(2)**	7
Cash outflow from change in debt	**330**	71
Debt restructuring costs paid in the year	**2**	7
Change in net debt resulting from cash flows	**330**	85
Debt restructuring costs paid in the current year relating to prior year charge	**(2)**	2
Amortisation of issue costs and discounts/premiums on long-term loans	**(6)**	(4)
Loss on purchase of own debt	**—**	(1)
Amortisation of the fair value adjustments of securitised bonds	**4**	4
Convertible loan note effective interest	**—**	(3)
Movement in other reserve arising on convertible bond redemption	**—**	(7)
Movement in net debt in the year	**326**	76
Net debt at start of year	**(2,034)**	(2,110)
Net debt at end of year	**(1,708)**	(2,034)

b) Analysis of net debt

	2019	2018
	£m	£m
Bank borrowings	**—**	(15)
Corporate bonds	**(1,175)**	(1,277)
Securitised bonds	**(691)**	(904)
Gross debt	**(1,866)**	(2,196)
Cash	**156**	158
Underlying net debt (note 22)	**(1,710)**	(2,038)
Capitalised debt issue costs	**14**	20
Fair value adjustments on acquisition of bonds	**(9)**	(13)
Finance lease payables	**(3)**	(3)
Net debt (note 22)	**(1,708)**	(2,034)
Balance sheet:		
Current financial liabilities	**(19)**	(186)
Non-current financial liabilities	**(1,845)**	(2,006)
Cash	**156**	158
Net debt	**(1,708)**	(2,034)

Underlying net debt represents amounts repayable to banks and other lenders net of cash retained in the business. Cash includes £111 million held in the securitised Unique sub-group, of which £65 million is held in a securitised reserve account.

32. Related party transactions

Compensation of key management personnel

	2019	2018
	£000	£000
Short-term employee benefits	**2,454**	2,192
Post-employment benefits	**227**	223
Share-based payments	**1,322**	903
	4,003	3,318

32. Related party transactions (Continued)

Key management personnel comprises both executive and non-executive directors.

Short-term employee benefits comprise fees, salaries, benefits and performance related bonus as reported in the directors' remuneration report. Post-employment benefits comprise payments made to the directors' own personal pension by way of salary supplements in lieu of contributions. Share-based payments comprise the fair value of Deferred Share Award and LTIP share awards charged in the year. Further information about the remuneration of individual directors is available in the directors' remuneration report on pages 65 to 78.

Subsidiaries

The Parent Company's subsidiaries are listed in the following table.

	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
Directly held by Ei Group plc:				
Enterprise Managed Investments Limited	England	Ordinary shares	100%	Investment holding company
Enterprise Inns Holding Company Limited	England	Ordinary shares	100%	Investment holding company
Unique Pubs Limited	England	Ordinary shares	100%	Investment holding company
Ei Publican Services Limited	England	Ordinary shares	100%	Intermediate supply company
Century Inns Limited	England	Ordinary shares	100%	Dormant
Gibbs Mew Limited	England	Ordinary shares	100%	Dormant
Indirectly held by Ei Group plc:				
Unique Pub Properties Limited	England	Ordinary shares	100%	Ownership of licensed properties
Bermondsey Pub Company Limited	England	Ordinary shares	100%	Management of public houses
Bestplace (Beta) Limited	England	Ordinary shares	75%	Management of public houses
Bestplace Limited	England	Ordinary shares	51%	Management of public houses
Dirty Liquor Alpha Limited	England	Ordinary shares	51%	Management of public houses
Dirty Liquor Limited	England	Ordinary shares	75%	Management of public houses
Frontier Pubs Limited	England	Ordinary shares	75%	Management of public houses
Hippo Inns Limited	England	Ordinary shares	75%	Management of public houses
Hush Heath Inns Limited	England	Ordinary shares	51%	Management of public houses
Marmalade Pubs Limited	England	Ordinary shares	75%	Management of public houses
Mash Inns Limited	England	Ordinary shares	51%	Management of public houses
Urban Pubs & Bars 2 Limited	England	Ordinary shares	51%	Management of public houses
Old Spot Pub Company Limited	England	Ordinary shares	75%	Management of public houses
Six Cheers Limited	England	Ordinary shares	51%	Management of public houses
The Craft Union Pub Company Limited	England	Ordinary shares	100%	Management of public houses
Vixen Pub Company Limited	England	Ordinary shares	75%	Management of public houses
The Unique Pub Finance Company PLC	England	Ordinary shares	100%	Financing company
		Cumulative preference shares	100%	

32. Related party transactions (Continued)

	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
Social Cellar Limited	England	Ordinary shares	100%	Non-trading
Social Cellar (Gamma) Limited	England	Ordinary shares	100%	Non-trading
Unique Pub Investments Limited	England	Ordinary shares	100%	Investment holding company
Voyager Pub Group Holdings Limited	England	Ordinary shares	100%	Investment holding company
Voyager Pub Group Limited	England	Ordinary shares	100%	Investment holding company
Bede Holding Company Limited	England	Ordinary shares	100%	Dormant
Imagegold Limited	England	Ordinary shares	100%	Dormant
Unique Pub Properties Alpha Limited	England	Ordinary shares	100%	Dormant
Unique Pub Properties Beta Limited	England	Ordinary shares	100%	Dormant
Unique Pub Properties Gamma Limited	England	Ordinary shares	100%	Dormant
Unique Pub Properties Theta Limited	England	Ordinary shares	100%	Dormant
West Midlands Taverns Limited	England	Ordinary shares	100%	Dormant

The registered office of the Group's subsidiary undertakings is 3 Monkspath Hall Road, Solihull, B90 4SJ.

Non-controlling interests in the net assets of Bestplace (Beta) Limited, Bestplace Limited, Dirty Liquor Alpha Limited, Dirty Liquor Limited, Frontier Pubs Limited, Hippo Inns Limited, Hush Heath Inns Limited, Marmalade Pubs Limited, Mash Inns Limited, Urban Pubs & Bars 2 Limited, Old Spot Pub Company Limited, Six Cheers Limited and Vixen Pub Company Limited total £1 million at 30 September 2019 (2018: £1 million).

Parent Company transactions with subsidiary undertakings

The Parent Company enters into loans with its subsidiary undertakings which attract interest at varying levels. Net interest on these loans was £nil (2018: £nil).

The following loans were outstanding at the year end:

	2019	2018
	£m	£m
Loans due from subsidiary undertakings	**22**	14
Loans due to subsidiary undertakings	**—**	(2)
	22	12

The Parent Company entered into other trading transactions with its subsidiary undertakings which included revenue of £93 million (2018: £70 million) from an Asset Management Fee, drink revenue and rent revenue and costs of £65 million (2018: £68 million) from a Procurement Fee. During the year the Parent Company purchased property, plant and equipment at book value for consideration of £11 million (2018: £9 million) from subsidiary undertakings and sold property, plant and equipment at book value for consideration of £8 million (2018: £4 million) to subsidiary undertakings.

Dividends of £31 million (2018: £14 million) were received in the Parent Company from its subsidiary undertakings.

32. Related party transactions (Continued)

The following balances were outstanding at the year end:

	2019	2018
	£m	£m
Amounts due from subsidiary undertakings	**678**	647
Amounts due to subsidiary undertakings	**(89)**	(77)
	589	570

Amounts due to the Parent Company from subsidiary undertakings have been reviewed for impairment at the balance sheet date. No impairments have been recorded in the current or prior year.

33. Alternative performance measures

Like-for-like Publican Partnerships net income

Publican Partnerships like-for-like net income of £285 million (2018: £282 million) represents underlying EBITDA for the Publican Partnerships business of £291 million (2018: £307 million) excluding £1 million (2018: £7 million) of income in respect of disposals and £5 million of net income (2018: £18 million) relating to other non like-for-like net income.

Like-for-like Commercial Properties net income

Commercial Properties like-for-like net income of £3 million (2018: £3 million) represents underlying EBITDA for the Commercial Properties business of £19 million (2018: £27 million) excluding £13 million (2018: £26 million) of income in respect of disposals and £3 million of net income relating to other non like-for-like net income (2018: includes a net £2 million of income representing income from before the properties moved into the segment net of non like-for-like net income).

Managed like-for-like sales

Managed like-for-like sales represents revenue from the Managed estate of £218 million (2018: £152 million) excluding underlying revenue from those pubs that have not traded for two full years post investment in their managed format of £113 million (2018: £52 million).

Average net income per pub

Average net income per pub represents the annual net income for Publican Partnerships assets trading at 30 September 2019 of £285 million (2018: £303 million) divided by the total Publican Partnerships assets trading at 30 September 2019 of 3,424 properties (2018: 3,718 properties).

Publican Partnerships net income of £285 million (2018: £303 million) represents underlying EBITDA for the Publican Partnerships business of £291 million (2018: £307 million) excluding £1 million (2018: £2 million) of income in respect of disposals and £5 million of net income (2018: £2 million) relating to other non like-for-like net income.

Average net income per property

Average net income per property represents the annual net income for Commercial Properties assets trading at 30 September 2019 of £9 million (2018: £30 million) divided by the total Commercial Properties assets trading at 30 September 2019 of 125 properties (2018: 412 properties).

Commercial Properties net income of £9 million (2018: £30 million) represents underlying EBITDA for the Commercial Properties business of £19 million (2018: £27 million) excluding £13 million (2018: £nil) of income in respect of disposals and including £3 million of net income (2018: £3 million) relating to the pubs before they were transferred to the Commercial Properties segment offset by unlicensed property income.

33. Alternative performance measures (Continued)

Managed annualised site EBITDA

Managed operations annualised average site EBITDA represents annualised EBITDA of sites that have traded post investment for more than six months of £39 million (2018: £24 million) divided by the total number of sites that have traded post investment for more than six months being 346 sites (2018: 232 sites).

Managed investments annualised average site EBITDA represents annualised EBITDA of sites that have traded post investment for more than six months of £9 million (2018: £6 million) divided by the total number of sites that have traded post investment for more than six months being 50 sites (2018: 27 sites).

The total annualised EBITDA for sites that have traded for more than six months referred to above of £48 million (2018: £30 million) represents underlying EBITDA for the Managed business of £42 million (2018: £28 million) excluding costs not allocated at site level of £5 million (2018: £4 million), excluding EBITDA of pubs that have not traded for more than six months post investment of £1 million (2018: £4 million) and including an adjustment of £2 million (2018: £2 million) to annualise the EBITDA of pubs that have traded post investment for more than six months but less than the full year.

EBITDA

EBITDA represents earnings before taxation, finance costs, goodwill impairment, movements in valuation of the estate and related assets, net loss on sale of property, profit on sale of controlling interest in subsidiary undertaking and depreciation and amortisation.

Underlying EBITDA

Underlying EBITDA represents earnings before finance costs, taxation, depreciation and amortisation excluding non-underlying items. Non-underlying items that are excluded from underlying EBITDA include reorganisation costs, assignment premiums paid to publicans in order to take the assignment of a lease or to break a lease at any point other than at renewal during the period of our strategic review and professional fees incurred in respect of the Stonegate Offer.

Underlying profit before tax

Underlying profit before tax excludes non-underlying items. Non-underlying items excluded from profit before tax include reorganisation costs, assignment premiums paid to publicans in order to take the assignment of a lease or to break a lease at any point other than at renewal during the period of our strategic review, professional fees incurred in respect of the Stonegate Offer, the profit/loss on sale of property, the movement in valuation of the estate and related assets, goodwill impairment and costs incurred in respect of refinancing.

Underlying earnings per share (EPS)

Underlying EPS is based on profits after tax excluding non-underlying items as explained above.

Growth driving capital investment

Growth driving capital investment is discretionary capital cash spend on the Group's assets which is intended to generate incremental income at returns ahead of our target return on investment.

Maintenance and letting capital investment

Maintenance and letting capital investment is all capital cash spend that is not growth driving capital investment, typically focused on maintaining the quality of our assets and supporting the letting programme.

Return on investment

Return on investment is measured as the incremental income delivered as a result of the investment divided by the value of the capital investment.

33. Alternative performance measures (Continued)

Unplanned business failures

Unplanned business failures are all lease and tenancy agreements that do not reach their full term, where failure is not through the mutual agreement of ourselves and the departing publican. For example, through publican abandonment or via legal proceedings.

34. Property valuation and net asset value

The Group's total property valuation of £3,289 million as at 30 September 2019 includes other property assets in addition to the properties valued subject to Rule 29 of the Takeover Code including the value of assets held for sale, operating leasehold sites and other fixed assets. These items have not been independently valued and do not require an independent valuation for the purposes of Rule 29 of the Code.

	2019	2019
	£m	No.
Properties valued by GVA Grimley Limited (t/a Avison Young)	**1,544**	**1,771**
Properties valued by Colliers International Property Advisors UK LLP	**1,538**	**1,860**
Properties valued by internal Estates Director	**120**	**152**
Property subtotal*	**3,202**	**3,783**
Non-current assets held for sale	**15**	
Operating leasehold sites	**28**	
Other fixed assets	**44**	
Total property asset value	**3,289**	

* Properties subject to Rule 29 of the Code.

The net asset value of £1,296 million recorded in the Group balance sheet is arrived at by taking the total property asset value of £3,289 million (as detailed in the table above), adding to this goodwill of £37 million, financial assets of £1 million, trade receivables of £3 million, total current assets of £210 million and net of total liabilities of £2,244 million.

Financial Statements as of and

for the year ended 30 September 2018

Contents

Statement of directors' responsibilities

In relation to the Group and Company financial statements

The directors are responsible for preparing the Annual Report, the directors' remuneration report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Company financial statements in accordance with IFRSs as adopted by the EU. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for preparing the directors' report (including the corporate governance report) and the directors' remuneration report in accordance with the Companies Act 2006 and applicable regulations, including the Listing Rules and the Disclosure and Transparency Rules.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are disclosed on page 41, confirms that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and result of the Group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

The directors are responsible for preparing the annual report in accordance with applicable law and regulations. Having taken advice from the Audit Committee, the Board considers the report and accounts, taken as a whole, to be fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

On behalf of the Board

W S Townsend
Chief Executive Officer

19 November 2018

N R Smith
Chief Financial Officer

19 November 2018

Independent auditor's report
to the members of Ei Group plc

Opinion

In our opinion:

- Ei Group plc's Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 September 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Ei Group plc which comprise:

Group	Company
Group balance sheet as at 30 September 2018	Company balance sheet as at 30 September 2018
Group income statement for the year then ended	Company statement of changes in equity for the year then ended
Group statement of comprehensive income for the year then ended	Company cash flow for the year then ended
Group statement of changes in equity for the year then ended	Related notes 1 to 35 to the financial statements including a summary of significant accounting policies
Group cash flow statement for the year then ended	
Related notes 1 to 35 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 34 to 38 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 39 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;

- the directors' statement set out on page 39 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 39 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Property valuation • Goodwill impairment • Deferred taxation • Parent Company—impairment of cost of investments
Audit scope	• We performed an audit of the complete financial information of four (2017: four) full scope components, performed specific scope procedures in respect of three components (2017: three) and performed other procedures in respect of 20 components (2017: 17). • The components where we performed full audit procedures accounted for 77% of underlying profit before tax, 78% of revenue and 99% of total assets. • The components subject to specific scope procedures or specified procedures covered 23% of underlying profit before tax, 22% of revenue and 1% of total assets.
Materiality	• Overall group materiality of £6 million represents 5% of underlying profit before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, we do not provide a separate opinion on these matters.

Risk

Over-valuation of property assets

1. **Pub estate—through either higher multiples than the market and/or fair maintainable trade (FMT) in excess of achievable income.**
2. **Commercial Property—through either higher multiples than the market and/or overstatement of estimated rental value (ERV).**

(2018: Property, Plant and Equipment £3,228 million; Investment Property £368 million; 2017: Property, Plant and Equipment £3,322 million; Investment Property £270 million)

Refer to the Audit Committee report (pages 51 to 55); accounting policies (pages 92 to 96); and note 18 of the consolidated financial statements (pages 111 to 114)

This is the largest estimate within the financial statements, prepared on an asset by asset basis for 4,244 individual assets. The valuation is performed by a combination of internal and external appropriately qualified valuers (as described in note 18). The valuation has been performed by third party independent valuers for 95% of the properties by value (2017: 95%).

The risk is the over-valuation of the Group's property assets as a result of the use of valuation multiples above normal market ranges or where FMT for the pub estate and ERV for the commercial property estate differs from actual income outside the expected range dependant on the lease profile of the asset.

As a result of continued uncertainty over the impact of the MRO legislation and the UK economy, we consider the risk of material misstatement to remain consistent with the prior year.

Our response to the risk

Valuation of the property estate was included wholly within that part of the audit subject to full scope procedures.

We identified, documented and confirmed our understanding of the controls operated by the Group surrounding the valuation process.

We inspected managements' analysis over the estate valuation documenting their conclusions with regard to the appropriateness of the external valuations.

Together with our internal property valuation specialists, we met with the Group's internal and external valuers in order to understand market trends, the overall estate valuation movement as well as specific trends within the year end valuation. We challenged the method adopted, the derivation of the key inputs of fair maintainable trade and FMT/ERV multiple (as described in note 18) and the nature and extent of the work they performed in preparing the valuations.

Together with our internal property valuation specialists, we evaluated the competence, capability and objectivity of management's external and internal valuation experts.

We tested the source data provided by the Group to the external and internal valuation experts back to invoices for a sample of 60 transactions. We also tested the arithmetical accuracy of the valuation models.

We evaluated the adequacy of the disclosures regarding property assets in line with IAS 16, IAS 40 and IFRS 13.

We used analytics as a risk assessment procedure over the whole estate to direct our testing towards those assets which displayed one or more unusual features either in their underlying performance or in their valuation outcome. We sampled properties where our overall property analytics identified outliers within the estate.

We also performed risk specific sampling:

- Where the multiples applied did not fall within our expected ranges as informed through: historically achieved ranges by region; yields achieved through observable market transactions in the period; and overall trends in yields in the market as assessed by our internal property valuation specialists.
- Where, for the pub estate, movements in the FMT-actual income gap was not congruent with underlying changes in the lease agreement profile.
- Where, for the commercial property estate, the ERV applied in the valuation showed a material difference to the actual rental value achieved in the year.
- We also selected a random sample of assets to add unpredictability into our sampling approach.

From this analysis, we selected a sample of 206 (2017: 125) asset valuations and obtained explanations from the internal and external valuers as well as from the Director of FP&A where relevant for the valuation movement and/or FMT/multiple. With the involvement of our internal valuation specialists, we tested these explanations by corroborating changes in factual circumstances to relevant source documentation and historic trading performance.

Key observations communicated to the Audit Committee

The valuers have adopted an approach to the valuation of the Group's properties which is appropriate, consistent, and in accordance with applicable guidance.

The results of our procedures have affirmed the overall valuation outcome and we identified no material overstatement of property values.

Risk

Failure to impair goodwill in respect of the Publican Partnerships, Commercial Properties or Managed segments (being Bermondsey Pub Company, Craft Union Pub Company and Managed Investments) through inappropriate impairment model assumptions in respect of discount rate, long-term growth or underlying short-term forecasts.

(2018: £304 million; 2017: £312 million)

Refer to the Audit Committee report (pages 51 to 55); accounting policies (pages 92 to 96); and note 13 of the consolidated financial statements (page 105)

As discussed in note 13, the Group has five Cash Generating Units (CGUs) (2017: five). The Group is required to allocate goodwill between CGUs and test impairment for each CGU.

The Group has goodwill with a total carrying value of £304 million (2017: £312 million) of which £248 million relates to Publican Partnerships (2017: £271 million), £31 million (2017: £24 million) to Commercial Properties and £25 million (2017: £17 million) to the three Managed segments. The impairment test is sensitive to the key assumptions of discount rate, the level of forecast cash flows (including long-term growth rate assumptions) and the results of the estate valuation exercise as described in note 18.

We consider the risk to remain consistent with prior year given the continued uncertainty of the impact of the MRO legislation and the UK economy on the assumptions used in the impairment test.

Our response to the risk

Goodwill was included wholly within that part of the audit subject to full scope procedures.

We identified, documented and confirmed our understanding of the controls operated by the Group surrounding the goodwill allocation and impairment process.

We ensured that management had appropriately determined the carrying amount for each CGU and tested the basis for any movement of goodwill between segments.

We confirmed the cash flow forecasts were consistent with those approved by the board and examined the cash flow forecasts by testing the underlying models, which included an analysis of the underlying assumptions, and by reference to the accuracy of previous forecasts and underlying assumptions.

The key assumptions of the discount rate and long-term growth rate underlying the goodwill impairment test were addressed through a combination of testing the Group's detailed calculations, benchmarking the assumptions used against comparator companies and, in respect of the discount rate assumption, an independent assessment by our valuation specialists based on general market indicators.

We ensured the appropriate disclosures are included in the Annual Report and Accounts.

Key observations communicated to the Audit Committee

We concur with management that no impairment of goodwill needs to be recorded.

The pre-tax discount rate of 7.75% applied in the impairment tests for EiPP and EiCP is within our acceptable range, albeit towards the lower end. The pre-tax discount rate of 7.75% applied in the impairment tests for the Managed segments (Bermondsey, Craft Union and Managed Investments) is outside of our acceptable range however no impairment would result from applying a discount rate towards the lower end of our acceptable range. Management's discount rate of 7.75% is in line with comparable companies.

The assumption for a long-term growth rate of 2% applied to all segments is consistent with external economic forecasts for the UK pub industry as well as comparable companies.

The short-term forecasts are consistent with those approved by the Board and management have demonstrated that their forecasting process is historically accurate.

Risk

Misstatement of deferred tax liability due to the following complexities evaluated through a bespoke tax model: (a) indexation; (b) rolled over gains; (c) capital allowances; (d) DRE claims; (e) allocation between performance statements.

Refer to the Audit Committee report (pages 51 to 55); accounting policies (pages 92 to 96); and note 27 of the Consolidated Financial Statements (page 127)

The deferred tax liability associated with carrying the pub estate at valuation (which the Group refer to as contingent tax) of £134 million (2017: £136 million) is established through an internally developed model set up on a pub by pub basis. Due to the impact of indexation (and restrictions thereon), the ability to roll over gains and carry forward losses, and the difference between cost for accounting and taxation purposes, the calculation of the contingent tax is complex.

The recognition of any resultant movement in the contingent tax between the income statement and other comprehensive income is also complex, being impacted by any accounting valuation surplus or deficit and whether or not the pub was acquired through a business combination that was revisited at the time of transition to IFRS.

In addition to the contingent tax arising on revaluation, the Group has a substantial deferred tax balance arising in respect of qualifying capital expenditure on the estate (for which capital allowances can be obtained). This calculation is impacted by the disposal of pubs and the accounting and tax values ascribed to the associated qualifying expenditure.

We consider the risk to remain consistent with the prior period given there have been no significant changes in accounting and tax regulations.

Our response to the risk

The deferred tax liability is wholly within the components subject to full scope audits.

We identified, documented and confirmed our understanding of the controls operated by the Group surrounding the recognition of the deferred tax liability arising on the valuation of the estate.

We stratified the components of the deferred tax liability into categories based on the risk factors identified within the risk wording above. With the support of our tax specialists we re-performed the full proof of tax through independently re-calculating the impact of each stratification being indexation, capital loss restrictions, DRE claims, rollover relief, and the result of the annual revaluation exercises across the estate.

We tested the allocation of deferred tax to performance statements on a pub by pub basis.

We re-performed the overall proof of tax prepared by management for each performance statement and compared movements in the year with our expectations.

Key observations communicated to the Audit Committee

The process for deriving the deferred tax liability in respect of the estate has resulted in liabilities which are fairly stated. We are satisfied that the deferred tax movements have been recorded in the relevant performance statements.

Risk

Failure to impair cost of investments in subsidiaries held by Parent Company through inappropriate impairment model assumptions in respect of discount rate, long-term growth and underlying short-term forecasts.

Company investments (2018: £1,761 million; 2017: £1,790 million)

Refer to the Audit Committee report (pages 51 to 55); accounting policies (pages 92 to 96); and note 19 of the consolidated financial statements (page 115)

The Company has investments with a total carrying value of £1,761 million (2017: £1,790 million) in subsidiaries which are subject to an annual impairment test in accordance with IAS 36. The impairment test is sensitive to the key assumptions of discount rate, the level of forecast cash flows (including long-term growth rate assumptions) and the results of the estate valuation exercise, as described in note 19.

Our response to the risk

Company investments were included wholly within that part of the audit subject to full scope procedures.

We identified, documented and confirmed our understanding of the controls operated by the Company surrounding the investment impairment review.

We ensured that management had appropriately determined the carrying amount of the investment and audited the discounted cash flow workings to ensure they were clerically accurate.

We examined the cash flow forecasts by testing the underlying models, including analysis of the underlying assumptions, and by reference to the accuracy of previous forecasts and underlying assumptions.

The key assumptions of discount rate and long-term growth rate underlying the investment impairment test were considered through a combination of testing the Company's detailed calculations, benchmarking the output against comparator companies and, in respect of the discount rate assumption, an independent assessment by our specialists based on general market indicators.

Key observations communicated to the Audit Committee

We concur with the investment impairment of £29 million recorded in the year.

The pre-tax discount rate of 7.75% applied in the impairment test is towards the low end of our acceptable range.

The assumption for long-term growth rate of 2% is consistent with external economic forecasts for the UK pub industry and comparable companies.

The short-term forecasts are consistent with the current trading performance of UPP.

Other matters

The overstatement of wet, dry, food and amusement income through manual journal postings, and the risk of fraud as a result of management override (through inappropriate classification of items as non-underlying or through the classification of expenditure between capital or expense) are also considered significant risks, but have not been included in the table above as a key audit matter as they were not areas of greatest audit effort.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each entity.

The Group has common financial systems, processes and controls covering its operations with the exception of 11 of the Group's managed house operations which are managed on stand-alone systems maintained by third party managers. These 11 operations are subject to specified procedures.

We assessed the risk of material misstatement to the financial statements, and ensured we had adequate coverage of significant accounts in the financial statements, of the 27 (2017: 24) reporting components of the Group. We performed an audit of the complete financial information of four (2017: four) full scope components which were selected based on their size or risk characteristics. We performed audit procedures on specific balances in respect of three (2017: three) specific scope components that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

Independent auditor's report (Continued)
to the members of Ei Group plc

Of the remaining 20 components that together represent 1% of the Group's underlying profit before tax, none are individually greater than 1% of the Group's underlying profit before tax. For these components, we performed other procedures, including analytical review; review of Group-wide entity level controls; testing of consolidation journals, manual journals, and intercompany eliminations; and the assessment of control in accordance with IFRS 10; to respond to any potential risks of material misstatement to the Group financial statements.

The audits of the entities subject to full and specific scope audits (which represent the principal business units within the Group, one being the Parent Company itself) are performed at a materiality level calculated by reference to a proportion of the Group materiality appropriate to the relevant scale and risk of the business concerned. In the current year, the range of performance materiality allocated to these components was £0.9 million to £3.2 million (2017: £0.9 million to £3.2 million).

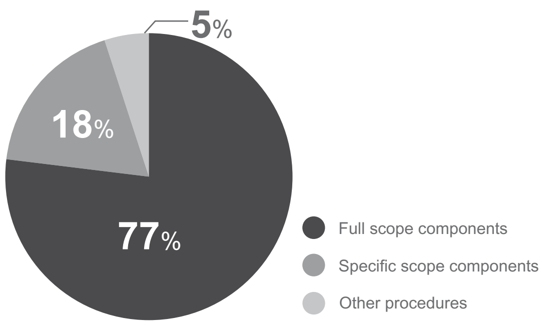
The reporting components where we performed audit procedures accounted for 95% (2017: 99%) of the Group's underlying profit before tax, 97% (2017: 99%) of the Group's revenue and 100% (2017: 99%) of the Group's total assets.

For the current year, the full scope components contributed 77% (2017: 91%) of the Group's underlying profit before tax, 78% (2017: 88%) of the Group's revenue and 99% (2017: 99%) of the Group's total assets.

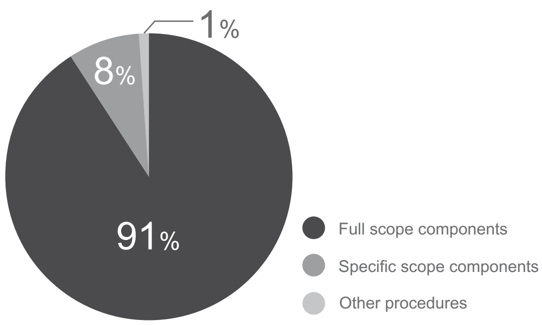
The specific scope component contributed 18% (2017: 8%) of the Group's underlying profit before tax, 19% (2017: 11%) of the Group's revenue and 0% (2017: 0%) of the Group's total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

The charts below illustrate the coverage obtained from the work performed by our audit teams.

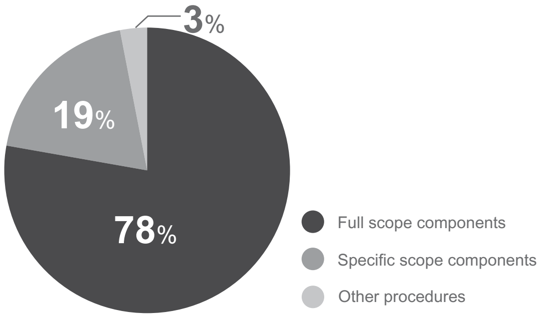
Underlying profit before tax (2018)



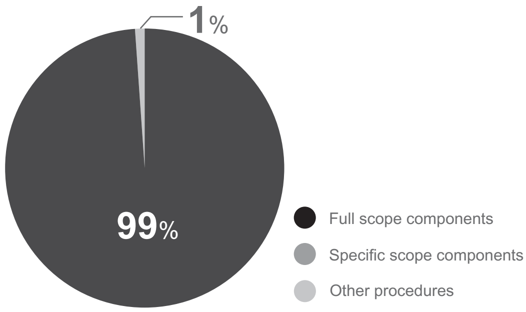
Underlying profit before tax (2017)



Revenue (2018)



Total assets (2018)



Changes from the prior year

Specific scope components represent 18% of underlying profit before tax (2017: 8%) and procedures have been performed on material balances within underlying profit before tax in these entities. These components are not full scope as they only represent 1% of the Group's total assets.

The increase in components subject to other procedures to 20 (2017: 17) is due to three new managed investment entities in the year.

Involvement with component teams

All audit work performed for the purposes of the audit was undertaken by the Group audit team.

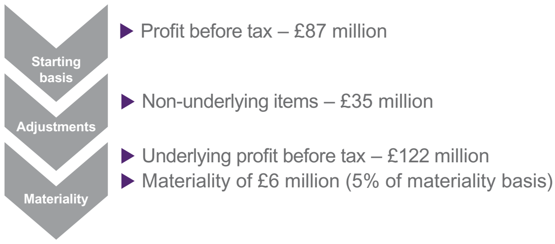
Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £6 million (2017: £6 million), which is 5% (2017: 5%) of underlying profit before tax. We have used underlying profit before tax as our materiality basis as it provides a normalised trend in trading performance.



During the course of our audit, we reassessed initial materiality and there was no change in our final materiality from our original assessment at planning.

Independent auditor's report (Continued)
to the members of Ei Group plc

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment and limited historical audit findings indicating a lower risk of undetected misstatement in the financial statements, we set performance materiality at 75% (2017: 75%) of our planning materiality, namely £4.5 million (2017: £4.5 million).

Audit work for components for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £0.9 million to £3.2 million (2017: £0.9 million to £3.2 million).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.3 million (2017: £0.3 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

In the context of the Annual Report and Accounts, other information comprises the information included in the Annual Report set out on pages 1 to 158, including the strategic report, set out on pages 1 to 39, governance, set out on pages 40 to 83, and shareholder information set out on pages 147 to 158, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 55**—the statement given by the directors that they consider the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit;
- **Audit Committee report set out on pages 51 to 55**—the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 47**—the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by

the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 83 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Explanation of the extent to which our audit can detect fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Independent auditor's report (Continued)
to the members of Ei Group plc

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant framework is the Small Business, Enterprise and Employment Act 2015, in particular the new Statutory Code of Practice.
- We understood how Ei Group plc is complying with this framework by making inquiries of management, internal audit, those responsible for legal and compliance procedures, and the company secretary and through the review of the pubs code compliance report submitted to the pubs code adjudicator. We corroborated our enquiries through review of board minutes, review of internal audit reports, papers provided to the Audit Committee and correspondence received from regulatory bodies.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where they considered there was susceptibility to fraud. In addition, we also performed specific procedures to respond to our fraud risks of overstatement of wet, dry, food and amusement income through manual journal postings, and the risk of fraud as a result of management override (through inappropriate classification of items as non-underlying or through the classification of expenditure between capital or expense). Such procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations that we considered could result in a material misstatement of the financial statements. Our procedures included a review of board minutes to identify any non-compliance with laws and regulations, a review of papers provided to the Audit Committee by internal audit on compliance with regulations and enquiries with the Director of Internal Audit, management and the Company Secretary.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the company at the AGM to audit the financial statements for the year ending 30 September 1991 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 28 years, covering the years ending 30 September 1991 to 30 September 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

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

Christopher Voogd (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham
19 November 2018

Independent auditor's report (Continued)
to the members of Ei Group plc

Notes:

1. The maintenance and integrity of the Ei Group plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Group income statement

for the year ended 30 September 2018

	Notes	2018 £m	2017 £m
Revenue	6	**695**	648
Operating costs before depreciation and amortisation	7	**(413)**	(370)
EBITDA*		**282**	278
Depreciation and amortisation	7	**(19)**	(17)
Operating profit		**263**	261
Profit on sale of controlling interest in subsidiary undertaking	5	**1**	—
Profit on sale of property		**2**	10
Goodwill allocated to disposals		**(8)**	(10)
Net loss on sale of property	5	**(6)**	—
Movements in valuation of the estate and related assets	5	**(19)**	(24)
Finance costs	10	**(152)**	(179)
Profit before tax		**87**	58
Taxation	11	**(15)**	(4)
Profit after tax attributable to members of the Parent Company		**72**	54
Earnings per share	12		
Basic		**15.2p**	11.2p
Basic diluted		**14.7p**	11.1p

* Earnings before finance costs, taxation, depreciation and amortisation

Group statement of comprehensive income

for the year ended 30 September 2018

	2018 £m	2017 £m
Profit for the year	**72**	54
Items that will not be reclassified to the income statement:		
Unrealised surplus on revaluation of pub estate	**8**	11
Revaluation of assets on transfer to investment property	**—**	1
Revaluation of assets on transfer to non-current assets held for sale	**—**	(6)
Movement in deferred tax liability related to revaluation of the estate	**—**	3
Other comprehensive income for the year net of tax	**8**	9
Total comprehensive income for the year attributable to members of the Parent Company	**80**	63

Balance sheets
at 30 September 2018

	Notes	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Non-current assets					
Goodwill	13	**304**	312	**—**	—
Intangible assets: operating lease premiums	14	**9**	9	**4**	4
Property, plant and equipment	15	**3,228**	3,322	**1,660**	1,722
Investment property	16	**368**	270	**175**	119
Investments	19	**—**	—	**1,761**	1,790
Financial assets	23	**—**	—	**14**	9
Trade receivables	21	**3**	2	**2**	1
		3,912	3,915	**3,616**	3,645
Current assets					
Inventories	20	**3**	2	**—**	—
Trade and other receivables	21	**55**	53	**685**	660
Financial assets	23	**3**	—	**3**	—
Cash		**158**	151	**18**	15
		219	206	**706**	675
Non-current assets held for sale	17	**13**	25	**7**	12
Total assets		**4,144**	4,146	**4,329**	4,332
Current liabilities					
Trade and other payables	22	**(207)**	(197)	**(231)**	(228)
Current tax payable		**(10)**	(2)	**(2)**	1
Financial liabilities	23	**(186)**	(81)	**(102)**	—
Pension	28	**(1)**	(2)	**(1)**	(2)
Provisions	26	**(1)**	(1)	**(1)**	(1)
		(405)	(283)	**(337)**	(230)
Non-current liabilities					
Financial liabilities	23	**(2,006)**	(2,180)	**(1,180)**	(1,261)
Provisions	26	**(5)**	(4)	**(4)**	(3)
Deferred tax	27	**(174)**	(176)	**(76)**	(78)
		(2,185)	(2,360)	**(1,260)**	(1,342)
Total liabilities		**(2,590)**	(2,643)	**(1,597)**	(1,572)
Net assets		**1,554**	1,503	**2,732**	2,760
Equity					
Called up share capital	29	**13**	13	**13**	13
Share premium account	31	**486**	486	**486**	486
Revaluation reserve	31	**751**	747	**424**	430
Capital redemption reserve	31	**12**	12	**12**	12
Merger reserve	31	**77**	77	**—**	—
Treasury share reserve	31	**(227)**	(227)	**(227)**	(227)
Other reserve	31	**(2)**	18	**298**	347
Profit and loss account*		**443**	376	**1,726**	1,699
Equity attributable to members of the Parent Company		**1,553**	1,502	**2,732**	2,760
Non-controlling interests		**1**	1	**—**	—
Total equity		**1,554**	1,503	**2,732**	2,760

* The profit and loss account of the Parent Company is omitted from the Company's accounts by virtue of the exemption granted by section 408 of the Companies Act 2006. The profit generated in the year for ordinary shareholders, and included in the financial statements of the Parent Company, amounted to £5 million (2017: £20 million).

Approved by the Board on 19 November 2018 and signed on its behalf by:

W S Townsend
N R Smith

Group statement of changes in equity

at 30 September 2018

	Group										
	Share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Merger reserve £m	Treasury share reserve £m	Other reserve £m	Profit and loss account £m	Equity attributable to members of the Parent Company £m	Non-controlling interests £m	Total £m
At 1 October 2016	14	486	748	11	77	(227)	10	328	1,447	1	1,448
Profit for the year	—	—	—	—	—	—	—	54	54	—	54
Other comprehensive income	—	—	9	—	—	—	—	—	9	—	9
Total comprehensive income	—	—	9	—	—	—	—	54	63	—	63
Transfer of realised revaluation surplus	—	—	(14)	—	—	—	—	14	—	—	—
Transfer of deferred tax	—	—	4	—	—	—	—	(4)	—	—	—
Share-based expense recognised in operating profit	—	—	—	—	—	—	—	3	3	—	3
Share option entitlements exercised in the year	—	—	—	—	—	—	10	(9)	1	—	1
Purchase of own shares into Employee Benefit Trust	—	—	—	—	—	—	(2)	—	(2)	—	(2)
Share buybacks	(1)	—	—	1	—	—	—	(15)	(15)	—	(15)
Share buyback commitments	—	—	—	—	—	—	—	5	5	—	5
At 30 September 2017	13	486	747	12	77	(227)	18	376	1,502	1	1,503
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**72**	**72**	**—**	**72**
Other comprehensive income	**—**	**—**	**8**	**—**	**—**	**—**	**—**	**—**	**8**	**—**	**8**
Total comprehensive income	**—**	**—**	**8**	**—**	**—**	**—**	**—**	**72**	**80**	**—**	**80**
Transfer of realised revaluation surplus	**—**	**—**	**(7)**	**—**	**—**	**—**	**—**	**7**	**—**	**—**	**—**
Transfer of deferred tax	**—**	**—**	**3**	**—**	**—**	**—**	**—**	**(3)**	**—**	**—**	**—**
Share-based expense recognised in operating profit	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**2**	**2**	**—**	**2**
Share option entitlements exercised in the year	**—**	**—**	**—**	**—**	**—**	**—**	**2**	**(2)**	**—**	**—**	**—**
Purchase of own shares into Employee Benefit Trust	**—**	**—**	**—**	**—**	**—**	**—**	**(1)**	**—**	**(1)**	**—**	**(1)**
Share buybacks	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(20)**	**(20)**	**—**	**(20)**
Convertible bond redemption	**—**	**—**	**—**	**—**	**—**	**—**	**(21)**	**11**	**(10)**	**—**	**(10)**
At 30 September 2018	**13**	**486**	**751**	**12**	**77**	**(227)**	**(2)**	**443**	**1,553**	**1**	**1,554**

Company statement of changes in equity

at 30 September 2018

	Company								
	Share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Merger reserve £m	Treasury share reserve £m	Other reserve £m	Profit and loss account £m	Total £m
At 1 October 2016	14	486	446	11	—	(227)	339	1,685	2,754
Profit for the year	—	—	—	—	—	—	—	20	20
Other comprehensive loss	—	—	(6)	—	—	—	—	—	(6)
Total comprehensive (loss)/ income	—	—	(6)	—	—	—	—	20	14
Transfer of realised revaluation surplus	—	—	(11)	—	—	—	—	11	—
Transfer of deferred tax	—	—	1	—	—	—	—	(1)	—
Share-based expense recognised in operating profit	—	—	—	—	—	—	—	3	3
Share option entitlements exercised in the year	—	—	—	—	—	—	10	(9)	1
Purchase of own shares into Employee Benefit Trust	—	—	—	—	—	—	(2)	—	(2)
Share buybacks	(1)	—	—	1	—	—	—	(15)	(15)
Share buyback commitments	—	—	—	—	—	—	—	5	5
At 30 September 2017	13	486	430	12	—	(227)	347	1,699	2,760
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**5**	**5**
Other comprehensive loss	**—**	**—**	**(4)**	**—**	**—**	**—**	**—**	**—**	**(4)**
Total comprehensive (loss)/ income	**—**	**—**	**(4)**	**—**	**—**	**—**	**—**	**5**	**1**
Transfer of realised revaluation surplus	**—**	**—**	**(2)**	**—**	**—**	**—**	**—**	**2**	**—**
Transfer of deferred tax	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Share-based expense recognised in operating profit	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**2**	**2**
Share option entitlements exercised in the year	**—**	**—**	**—**	**—**	**—**	**—**	**2**	**(2)**	**—**
Purchase of own shares into Employee Benefit Trust	—	—	—	—	—	—	(1)	—	(1)
Share buybacks	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(20)**	**(20)**
Convertible bond redemption	**—**	**—**	**—**	**—**	**—**	**—**	**(21)**	**11**	**(10)**
Reclassification (see note 31)	**—**	**—**	**—**	**—**	**—**	**—**	**(29)**	**29**	**—**
At 30 September 2018	**13**	**486**	**424**	**12**	**—**	**(227)**	**298**	**1,726**	**2,732**

Cash flow statements

for the year ended 30 September 2018

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Cash flow from operating activities				
Operating profit	**263**	261	**139**	152
Depreciation and amortisation	**19**	17	**11**	10
Share-based expense recognised in profit	**2**	3	**2**	3
Increase in receivables	**(7)**	(7)	**(30)**	(53)
Increase/(decrease) in payables	**3**	3	**(4)**	(1)
Increase in inventories	**(1)**	(1)	**—**	—
Increase in provisions	**1**	1	**1**	—
	280	277	**119**	111
Tax paid	**(9)**	(16)	**(3)**	(7)
Net cash flows from operating activities	**271**	261	**116**	104
Cash flows from investing activities				
Payments to acquire public houses	**—**	—	**(9)**	(14)
Payments made on improvements to public houses	**(75)**	(72)	**(38)**	(34)
Payments to acquire other property, plant and equipment	**(6)**	(7)	**(6)**	(6)
Receipts from sale of property	**66**	100	**30**	73
New loans to subsidiary undertakings	**—**	—	**(6)**	(7)
Acquisition of subsidiary undertaking	**—**	(1)	**—**	(1)
Dividend from subsidiary undertaking	**—**	—	**13**	13
Net cash flows from investing activities	**(15)**	20	**(16)**	24
Cash flows from financing activities				
Interest paid	**(143)**	(149)	**(81)**	(82)
Debt extinguishment costs	**(7)**	(30)	**(7)**	(30)
Debt restructuring costs	**(7)**	(3)	**(3)**	(3)
Payments to acquire own debt	**(5)**	—	**—**	—
Payments to acquire own shares	**(21)**	(17)	**(21)**	(17)
Receipts from exercise of share options	**—**	1	**—**	1
New loans	**340**	520	**340**	520
Repayment of loans	**(406)**	(597)	**(325)**	(520)
Net cash flows from financing activities	**(249)**	(275)	**(97)**	(131)
Net increase/(decrease) in cash	**7**	6	**3**	(3)
Cash at start of year	**151**	145	**15**	18
Cash at end of year	**158**	151	**18**	15

Notes to the accounts
at 30 September 2018

1. General information

The consolidated financial statements of Ei Group plc (the 'Parent Company' or the 'Company') for the year ended 30 September 2018 were authorised for issue by the Board on 19 November 2018. Ei Group plc is a public company limited by shares, incorporated and registered in England. The Company's ordinary shares are traded on the London Stock Exchange.

2. Presentation of financial statements

Statement of compliance

These financial statements are prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis of preparation

The financial information for the year ending 30 September 2018 has been prepared in accordance with the accounting policies set out in note 3 and is presented in pounds sterling. Amounts are shown in millions, unless stated otherwise.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Ei Group plc and its subsidiaries. Consolidated financial statements are drawn up to 30 September each year and adjustments are made to the financial statements of the subsidiaries where necessary to bring the accounting policies used in line with those used by the Group.

Subsidiaries are those controlled by the Group. Control exists when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity taking into account any potential voting rights. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

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

Result of the Parent Company

The directors have taken advantage of the exemption provided under section 408 of the Companies Act 2006 not to publish the Parent Company individual income statement, statement of comprehensive income and related notes.

Going concern

The Group's business activities, including a description of its financial position, cash flows, debt and borrowing facilities, are set out in the strategic report on pages 1 to 39, along with a summary of factors likely to affect the Group's future development and performance.

Further details on the Group's financial instruments and risks can be found in note 23 of the accounts on pages 117 to 124.

The directors have considered the Group's financial resources including a review of the medium-term financial plan, which includes a review of the Group's cash flow forecasts for the period of at least 12 months from the date of approval of these financial statements along with the principal risks and uncertainties as described on pages 34 to 38.

Based on the outcome of the above considerations the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the period under review. For this reason the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

2. Presentation of financial statements (Continued)

New standards and interpretations not yet adopted

During the year ended 30 September 2018 the Group has adopted the following amendments to existing standards, these have not had a material impact on the Group:

- IAS 12: Income Taxes

  Recognition of deferred tax assets for unrealised losses -amendment to IAS 12

- IAS 7: Statement of Cash Flows

  Disclosure initiative—amendment to IAS 7

Effective for periods beginning on or after 1 January 2018, which is the year ended 30 September 2019 for the Group, although earlier application is permitted:

- IFRS 2—Share-Based Payments

  Classification and measurement of share-based payment transactions—amendments to IFRS 2.

  The amendment clarifies the accounting around cash-settled share based payment transactions and those with net settlement features.

- IFRS 9—Financial Instruments

  IFRS 9 replaces IAS 39 and addresses the classification, measurement and de-recognition of financial assets and liabilities. The standard also introduces a new impairment model for financial assets and new rules for hedge accounting. The Group has reviewed its financial assets and liabilities and is not expecting any significant impact or material adjustment to opening balances from the adoption of the new standard on 1 October 2018.

- IFRS 15—Revenue from Contracts with Customers

  The core principle of IFRS 15 is that an entity will recognise revenue in line with the transfer of each element of promised goods or services in a contract to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those individual elements of goods or services. This core principle is delivered in a five-step model framework that involves allocating the transaction price to each performance condition within a contract. Following an assessment of the terms of contracts it enters into with customers the Group has concluded that the adoption of the new standard will not have a material impact on its consolidated results and financial position, but will result in additional disclosure requirements.

Effective for periods beginning on or after 1 January 2019 which is the year ended 30 September 2020 for the Group:

- IAS 12: Income Taxes

  IFRIC 23—Uncertainty over Income Tax Treatments issued.

  The Interpretation sets out how to determine the accounting tax position when there is uncertainty over income tax treatments.

- IFRS 16—Leases

  IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that appropriately represents those transactions. It requires lessees to recognise assets and liabilities for all leases unless the underlying asset has a low value or the lease term is 12 months or less.

  On adoption the Group will recognise a right of use asset and a lease liability based on the net present value of the payments required under each of its leases. The operating lease charge, currently recognised in EBITDA will be replaced by the depreciation of the right of use asset and interest on the lease liability. As well as a change to the line items in the income statement it is also expected to change the profile of the net charge recognised in the income statement over the lease term.

  The Group has made good progress on its transition project however it is not currently practicable to provide a reasonable estimate of the full impact of the standard at this stage.

3. Accounting policies

Goodwill

Goodwill represents the excess of consideration over the fair value of identifiable assets and liabilities acquired in a business combination. Goodwill is not amortised but is tested for impairment annually, or more frequently where events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is stated at cost less any impairment. At 30 September 2015 goodwill was allocated to individual properties based on their relative value at that time, and on disposal of a property, this attributable amount of goodwill is included in the determination of profit or loss on sale. For the purpose of impairment testing, goodwill is allocated to cash generating units that are consistent with the Group's operating segments. As properties move between segments the associated goodwill will also be transferred.

Goodwill arising on acquisitions prior to 1 October 1998 was written off against reserves and has not been subsequently reversed. Any such goodwill is not included in determining the profit or loss on disposal.

Fixed asset investments

Fixed asset investments in the Parent Company balance sheet are initially recognised at fair value and then held at this value subject to an annual impairment test. The assessment for impairment is detailed in the property, plant and equipment accounting policy below.

Property, plant and equipment

Licensed land and buildings are held at their fair value, and landlord's fixtures and fittings and other assets are held at cost.

The Group's licensed land and buildings recognised in property, plant and equipment, are revalued each year by external valuers or employees who are professionally qualified to carry out such valuations.

Surpluses arising from the revaluation exercise are taken through other comprehensive income to the revaluation reserve except where they reverse a revaluation decrease relating to the same asset previously recognised as an expense in the income statement. Any deficit arising from the revaluation exercise is taken through other comprehensive income to the revaluation reserve to the extent that there is a surplus in place relating to the same asset. Any further decrease in value is recognised in the income statement as an expense.

Freehold land is not depreciated. Freehold buildings are depreciated so as to write off the difference between their carrying value and residual value over their useful economic life of 50 years. Residual value is reviewed at least at each financial year end and there is no depreciable amount if residual value is the same as, or exceeds, book value.

Landlord's fixtures and fittings are split into two categories, long-life landlord's fixtures and fittings and short-life landlord's fixtures and fittings. Both are held at cost less accumulated depreciation. The useful economic life of additions in the form of long-life landlord's fixtures and fittings has been calculated at 30 years and additions to short-life landlord's fixtures and fittings has been calculated at 5 years. Depreciation is charged on a straight line basis to write off the total cost less residual value over the useful economic life.

Properties held under finance leases are depreciated on a straight line basis over the shorter of the remaining lease term and their useful economic life of 50 years.

Depreciation is provided on other categories of property, plant and equipment over 3 to 50 years on a straight line basis to residual value.

Property, plant and equipment is reviewed annually for indicators of impairment. Where any indicators are identified, assets are assessed fully for impairment. Impairment occurs where the recoverable amount of the asset is less than its carrying amount. Recoverable amount is the higher of an asset's fair value less costs to dispose and value in use. Any impairment loss is treated as a revaluation decrease to the extent that a surplus exists for the same asset, and thereafter as an expense in the income statement.

3. Accounting policies (Continued)

Investment property

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

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

Transfers are made to/from investment property when there is change of use evidenced by a change in the lease terms. When a property transfers from property, plant and equipment to investment property it is revalued to fair value and the movement recognised in line with the accounting policy described under property, plant and equipment. When a property transfers from investment property to property, plant and equipment it is revalued to fair value and the movement recognised in the income statement.

Non-current assets held for sale

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

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

Inventories

Inventories which comprise products held for resale in managed houses are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Leases

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Properties acquired under finance leases are capitalised at the lower of their fair value and the present value of future minimum lease payments. The corresponding liability is included in the balance sheet as a finance lease payable. Properties held under finance leases are revalued along with the freehold estate on an annual basis. Lease payments are apportioned between finance charges and reduction of the lease liability so as to obtain a constant rate of interest on the remaining balance of the liability. Finance charges are taken as an expense to the income statement.

Leases where substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals paid under operating leases are charged on a straight line basis to the income statement over the lease term. The fair value attributed to properties acquired as part of business combinations that are held as operating leases are classified in the balance sheet as intangible assets: operating lease premiums within non-current assets and are amortised over the lease term.

The Group has previously entered into sale and leaseback transactions where licensed land and buildings have been sold and the Group has immediately entered into a lease agreement with the acquiree. These land and buildings have been classified as operating leases. They are no longer included within property,

3. Accounting policies (Continued)

plant and equipment and the rentals paid are charged on a straight line basis to the income statement over the lease term.

Repairs and maintenance

Repairs and maintenance expenditure is charged to the income statement as incurred.

Assignment premiums

Where an amount is paid to a publican in order to take the assignment of a lease or to break a lease at any point other than at renewal, the payment made is expensed through administrative costs. During the period of our strategic evolution, which we determine to be five years following the implementation of the Pubs Code to allow for a full cycle of rent reviews, this will be treated as non-underlying.

Where an amount is paid to a publican in order to regain control of the property at the point of lease renewal in order that the Group can operate the site as a directly managed pub, the amount is linked to a capital investment project in order to reposition the property for the managed offering, and the premium paid is capitalised and depreciated in line with the project spend.

Financial instruments

a) Cash and cash equivalents

Cash comprises cash at bank and in hand. Any short-term deposits with an original maturity date of three months or less are classified as cash equivalents.

b) Borrowings

Borrowings which include bank borrowings, corporate bonds and securitised bonds are measured at amortised cost. This method is used to ensure that the interest charge associated with the debt, combined with the amortisation of the issue costs, premiums and discounts, represents a constant percentage of the borrowings across the life of the instrument based on the estimated cash flows and the contractual terms of the agreement.

When borrowings are refinanced the Group reviews whether the arrangement constitutes an extinguishment of the original financial liability and the recognition of a new financial liability or a modification of the terms of the existing financial liability. If the refinanced borrowings are accounted for as an extinguishment of the original financial liability, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment and written off through non-underlying finance costs. If the refinanced borrowings are accounted for as a modification, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining life of the modified loan. The effects of changes to the amount and timing of cash flows due to a modification adjust the future amortisation of the carrying amount.

c) Convertible financial instruments

The gross proceeds received from the issue of a convertible bond are split between a liability element and an equity component at the date of issue. The fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible bond and the fair value assigned to the liability component, representing any embedded option to convert the liability into equity of the Company, is included in equity and is not remeasured. The liability component is carried at amortised cost using the effective interest method until extinguished upon conversion or the instrument's maturity date. Issue costs are apportioned between the liability and equity components of the convertible bond based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity. The difference between the interest expense calculated under the effective interest rate method and interest paid to bondholders is added to the carrying amount of the convertible bond.

3. Accounting policies (Continued)

On early redemption the consideration paid and any transaction costs for the repurchase are allocated to the liability and equity components at the date of the transaction based on the fair value of the liability component estimated using the prevailing market interest rate for a similar non-convertible debt. The difference between the amount allocated to the liability and the book value of the liability is recognised in the income statement as a non-underlying finance cost. The amount allocated to equity is recognised in equity. The balance remaining in equity relating to the amount redeemed is transferred to the profit and loss reserve.

d) Equity instruments

Equity instruments, being ordinary shares issued by the Parent Company, are recorded at the fair value of the proceeds received, net of any direct issue costs. The nominal value of shares issued is recorded in called up share capital and the balance of the net proceeds is recorded in share premium.

When the Group returns surplus cash to shareholders through share buybacks, consideration paid or payable for shares purchased for cancellation is deducted from equity. The Company uses contingent share purchase contracts and the obligation to purchase shares is recognised in full at the inception of the contract. Any subsequent reduction in the obligation caused by the expiry or termination of a contract is credited back to equity at that time.

e) Trade receivables and trade payables

Trade receivables are held at their original invoiced amount net of an allowance for any doubtful amounts when collection of the full amount is no longer considered probable (further detail is given in note 21). Trade payables are held at amortised cost.

Fair value measurement

The Group measures licensed land and buildings, within property, plant and equipment, investment property and non-current assets held for sale, at fair value and provides disclosure information in respect of the financial assets and liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group.

The fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use provided that use was physically possible, legally permissible and financially feasible to access. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

IFRS 13 requires that all assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole.

The classification uses the following three-level hierarchy:

Level 1—Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2—Other techniques whereby the inputs are either directly or indirectly derived from market data.

Level 3—Inputs used in the valuation are not based on observable market data.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation

3. Accounting policies (Continued)

(based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Net debt

Net debt is the total book value of all financial assets and liabilities (not including trade receivables, trade payables and the equity component of the convertible bond) less cash. Underlying net debt is the nominal value of all financial assets and liabilities (not including trade receivables, trade payables and the equity component of the convertible bond) less cash.

Taxation

The tax expense comprises both the tax payable based on taxable profits for the year and deferred tax. Deferred tax is provided using the balance sheet liability method in respect of temporary differences between the carrying value of assets and liabilities for accounting and tax purposes. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. No deferred tax is recognised if the taxable temporary difference arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted by the balance sheet date.

Current tax assets and liabilities are offset where there is a legally enforceable right to offset the recognised amounts and the intention is to either settle on a net basis or realise the asset and liability simultaneously. Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities, and the assets and liabilities relate to taxes levied by the same tax authority which are intended to be settled net or simultaneously.

Tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly tax is charged or credited directly to equity if it relates to items charged or credited directly to equity. Otherwise tax is charged in the income statement. Tax is calculated using tax rates enacted or substantively enacted at the balance sheet date.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, the amount of the provision is discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The amount of the provision would therefore represent the present value of the expenditure expected to be required to settle the obligation.

Pension obligations

The Group has both defined contribution and defined benefit pension arrangements.

The cost of defined contribution payments made to employees' own pension plans is charged to the income statement as incurred.

As described in note 28, the Group entered into a bulk annuity policy that is a qualifying insurance policy in respect of the defined benefit section of the pension scheme.

Having entered into this policy, the scheme liabilities continue to be valued on the projected unit credit method and then the value of the annuity policy is stated as equal to the amount ascribed to the plan liabilities covered by the policy. Actuarial movements in the value of the scheme liabilities and the interest costs on scheme liabilities are matched by equivalent movements in the scheme asset. To the extent that the Group is committed to deferred premiums or future administration costs in respect of the annuity policy or the scheme, these are recorded as an additional liability within the pension deficit at the net

3. Accounting policies (Continued)

present value of future premiums. The interest paid on the bulk annuity policy is charged as a finance cost. The plan obligations will be derecognised on final settlement of the plan.

Treasury shares

The cost of own shares held in employee benefit trusts and in treasury is deducted from shareholders' equity until the shares are cancelled, re-issued or disposed of. Any proceeds received are also taken to shareholders' equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of own shares held.

Revenue recognition

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

Share-based payments

The Group operates a number of equity-settled share-based payment schemes for employees. Share-based payments are measured at fair value at the date of the award. This value is subsequently updated at each balance sheet date for management's best estimate of the effect of non-market based vesting conditions on the number of equity instruments that will ultimately vest. In valuing equity-settled transactions, no account is taken of any service and performance (vesting conditions), other than performance conditions linked to the price of the shares of the Parent Company (market conditions). Any other conditions which are required to be met in order for an employee to become fully entitled to an award are considered to be non-vesting conditions.

Like market performance conditions, non-vesting conditions are taken into account in determining the grant date fair value. The fair value is recognised as an expense over the vesting period by calculating the cumulative expense and recognising the movement in the cumulative expense in the income statement. A corresponding entry is made to equity.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance or service conditions are satisfied.

Dividends

Final dividends are recognised as a liability when they have been approved by shareholders at the Annual General Meeting. Interim dividends are recognised when they are paid.

Operating profit

Operating profit as referred to in the income statement is defined as being profit generated from normal trading activities before net profit/(loss) on sale of property, movements in valuation of the estate and related assets, finance costs and taxation.

Non-underlying items

The Group uses adjusted figures as key performance measures in addition to those reported under IFRS as management believe these measures enable them to assess the underlying performance of the business. Adjusted figures exclude non-underlying items which comprise exceptional items, non-recurring items and other adjusting items.

3. Accounting policies (Continued)

Use of accounting estimates and judgements

The Group makes judgements, estimates and assumptions during the preparation of the financial statements in the application of its accounting policies. Actual results may differ from these estimates under different assumptions and conditions. Those judgements and estimates that have the most significant effect on the amounts recognised in the financial statements are discussed below.

Significant judgements:

Classification of non-underlying items

Judgement is used to determine those items that should be classified as non-underlying so as to give a better understanding of the underlying trading performance of the Group. These items include:

a) Non-underlying operating costs

Non-underlying operating costs relating to regulatory matters and reorganisational costs have been recognised in the operating costs before depreciation and amortisation line.

In addition, during the period of our strategic evolution, assignment premiums where an amount is paid to a publican in order to take the assignment of a lease or to break a lease at any point other than at renewal would be treated as non-underlying. These costs have been incurred following the strategic review and the introduction of the Pubs Code in July 2016 and are not considered to be part of the underlying business as they are not expected to recur once the realignment of properties has been completed. This treatment is expected to apply for five years following the implementation of the Pubs Code which will allow for a full cycle of rent reviews over which time the Group will assess the optimal location for each asset which may include the payment of an assignment premium to allow the Group access to the property.

b) Net profit/(loss) on sale of property

Net profit/(loss) arising from the sale of property less goodwill allocated to disposals. The Group's trading operations are based around the income earned from owning property and therefore the profit or loss made from the sale of property is considered to be non-underlying.

c) Movements in valuation of the estate and related assets

Any revaluation that causes the book value of a property held in property, plant and equipment to fall below historic cost will lead to a charge in the income statement. If that same property later recovers in value so that its book value exceeds historic cost, the increase in value is credited to the income statement to the extent that a debit was previously recognised. Where properties identified for disposal are revalued immediately prior to transfer to non-current assets held for sale, the revaluation movement is recognised on the same basis.

Any gain or loss arising from the change in value of investment property is recognised in the income statement in the period in which it arises.

The movements in valuation of the estate and related assets do not directly result from underlying trading performance of the Group in any one reporting period and therefore have been categorised as non-underlying since they are not in the direct control of the Group.

d) Net finance costs

The gain or loss on purchase of own debt is calculated as the difference between the carrying value of the debt purchased less the aggregate of the consideration and related transaction costs paid. The Group has elected to take the gain or loss on the settlement date.

Non-underlying finance costs are recognised in relation to fees written off following the commitment to extinguish or restructure borrowings or where incurred as part of debt restructuring projects.

3. Accounting policies (Continued)

e) Taxation

A deferred tax liability has been recognised on the balance sheet relating to the estate. On transition to IFRS, the Group elected to apply IFRS 3 retrospectively to acquisitions from 1 January 1999. This led to an increase in goodwill in respect of this deferred tax. As this pre-acquisition liability changes due to capital gains indexation relief and changes in the rate of UK tax, a debit or a credit is recognised in the income statement. This has been classified as a non-underlying tax item due to its size and because it does not relate to any income or expense recognised in the income statement in the same period. All other movements in respect of this deferred tax liability are accounted for in the same performance statement as the gross item to which it relates.

The effect of changes in the substantively enacted rate of tax used to calculate deferred tax is reflected in other comprehensive income to the extent it relates to revaluation surpluses therein and in non-underlying profit/loss for all other elements of deferred tax.

The tax effect of all other non-underlying items is categorised as non-underlying in the income statement.

Methodology applied in the valuation of properties

Property assets are revalued annually to fair value in accordance with the Appraisal and Valuation Manual published by the Royal Institute of Chartered Surveyors (RICS) and IFRS 13. The valuation is based on an assessment of the income generating potential of the properties, and applying an appropriate multiple. The highest and best use for the property assets is assumed to be their current use by the Group, principally due to the legal restrictions imposed by the agreement with the publican, planning regulations and the financial implications of a change of use given those restrictions and the Group's business model. However, consideration is given to an alternative highest and best use if there are factors that indicate that such an alternative use exists which is physically possible, legally permissible and financially feasible to access.

Further information about the valuation of the estate is provided in note 18 of these financial statements.

Financing costs

When borrowings are refinanced with substantially the same lender, the Group uses judgement when reviewing whether the arrangement constitutes an extinguishment of the original financial liability and the recognition of a new financial liability or a modification of the terms of the existing financial liability. As described in note 5, the Group carried out a number of re-financing events during the year and the following judgements were made:

- With regards to the Unique consent solicitation exercise, judgement has been applied when assessing the change in terms and conditions, in determining that the event was a non-substantial modification to the existing financial liability.
- With regards to the refinancing of the RCF, judgement has been applied in determining that the event was a non-substantial modification to the existing financial liability by considering the expected future drawndown balance.

Related party transactions

The Group uses judgement when concluding that transactions with related parties of minority interests are not material for disclosure. This judgement is made based on the value of transactions.

Taxation

In order to calculate deferred tax on balances held by the Group it must make a judgement at each balance sheet date as to when a deferred tax asset is likely to be realised or when a deferred tax liability is likely to be settled to determine the rate at which tax should be calculated.

As the tax treatment of some transactions cannot be finally determined until a formal resolution has been reached with the tax authorities the Group uses judgement to determine the need for a tax provision. Tax

3. Accounting policies (Continued)

benefits are not recognised unless it is probable that the benefit will be obtained. Tax provisions are made if it is expected that a liability will arise. The Group reviews each significant tax liability or benefit to assess the appropriate accounting treatment.

Significant estimates:

Property valuation estimates

The valuation methodology uses an estimation of the fair maintainable trade (FMT) of a pub and then applies a multiple. The FMT is estimated based on historic trends and projected future income whilst the multiples are determined by our valuers with reference to each specific asset and market information. For more detail on the FMT and multiples see note 18.

Goodwill and investment impairment testing estimates

The Group annually tests whether goodwill has been impaired and the parent company tests whether the investment in subsidiary undertakings has been impaired. Management makes judgements in calculating the recoverable amount based on value-in-use calculations which require estimating future cash flows and applying a suitable discount rate. Details of the tests and carrying value of the asset are shown in notes 13 and 19.

Taxation

If the Group has determined that a tax provision is required whilst a formal resolution is being reached with tax authorities it recognises a provision which requires estimation. The Group will use the information and circumstances it has available to it at the time to best estimate the quantum of any provision required.

The Group also uses fair value as its estimate for realisable value in calculating the deferred tax on the property estate.

4. Segmental analysis

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

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

This results in three reportable segments being:

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

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

4. Segmental analysis (Continued)

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

Year ended 30 September 2018	Publican Partnerships	Commercial Properties	Managed	Central	Total
	£m	£m	£m	£m	£m
Revenue	**516**	**27**	**152**	**—**	**695**
Operating costs before depreciation and amortisation	**(209)**	**—**	**(124)**	**(75)**	**(408)**
Underlying EBITDA	**307**	**27**	**28**	**(75)**	**287**
Non-underlying operating costs before depreciation and amortisation					**(5)**
Depreciation and amortisation					**(19)**
Profit on sale of controlling interest in subsidiary undertaking					**1**
Net loss on sale of property					**(6)**
Movements in valuation of the estate and related assets					**(19)**
Net finance costs					**(152)**
Profit before tax					**87**
Taxation					**(15)**
Profit after tax					**72**

Year ended 30 September 2017	Publican Partnerships	Commercial Properties	Managed	Central	Total
	£m	£m	£m	£m	£m
Revenue	547	21	80	—	648
Operating costs before depreciation and amortisation	(222)	—	(67)	(72)	(361)
Underlying EBITDA	325	21	13	(72)	287
Non-underlying operating costs before depreciation and amortisation					(9)
Depreciation and amortisation					(17)
Movements in valuation of the estate and related assets					(24)
Net finance costs					(179)
Profit before tax					58
Taxation					(4)
Profit after tax					54

5. Non-underlying items

The Group uses adjusted figures as key performance measures in addition to those reported under IFRS as management believe these measures better reflect the ongoing trading transactions and enable better comparability and accountability for performance for them and other stakeholders. Adjusted figures exclude non-underlying items which comprise exceptional items, non-recurring items and other adjusting items.

Non-underlying items include reorganisation costs, assignment premiums paid to a publican in order to take the assignment of a lease or to break a lease at any point other than at renewal during the period of our realignment of properties, the profit on sale of controlling interest in subsidiary undertaking, the profit/loss on sale of property, the movement in valuation of the estate and costs incurred in respect of refinancing.

5. Non-underlying items (Continued)

The adjusted figures are derived from the reported figures under IFRS as follows:

	2018			2017		
	Underlying items	Non-underlying items	Total	Underlying items	Non-underlying items	Total
	£m	£m	£m	£m	£m	£m
Revenue	**695**	**—**	**695**	648	—	648
Operating costs before depreciation and amortisation	**(408)**	**(5)**	**(413)**	(361)	(9)	(370)
EBITDA	**287**	**(5)**	**282**	287	(9)	278
Depreciation and amortisation	**(19)**	**—**	**(19)**	(17)	—	(17)
Operating profit/(loss)	**268**	**(5)**	**263**	270	(9)	261
Profit on sale of controlling interest in subsidiary undertaking	**—**	**1**	**1**	—	—	—
Profit on sale of property	**—**	**2**	**2**	—	10	10
Goodwill allocated to disposals	**—**	**(8)**	**(8)**	—	(10)	(10)
Net loss on sale of property	**—**	**(6)**	**(6)**	—	—	—
Movements in valuation of the estate and related assets	**—**	**(19)**	**(19)**	—	(24)	(24)
Finance costs	**(146)**	**(6)**	**(152)**	(149)	(30)	(179)
Profit/(loss) before tax	**122**	**(35)**	**87**	121	(63)	58
Taxation	**(22)**	**7**	**(15)**	(22)	18	(4)
Profit/(loss) after tax attributable to members of the Parent Company	**100**	**(28)**	**72**	99	(45)	54
Earnings per share						
Underlying	**21.2p**			20.5p		
Underlying diluted	**20.0p**			19.5p		

Those items identified as non-underlying are explained further below:

a) Operating costs before depreciation and amortisation

A charge of £5 million (2017: £9 million) has been incurred in respect of assignment premiums paid and reorganisation costs.

During the period of our strategic evolution, the £4 million (2017: £6 million) of assignment premiums paid to a publican in order to take the assignment of a lease or to break a lease at any point other than at renewal would be treated as non-underlying. These costs have been incurred following the strategic review and the introduction of the Pubs Code in July 2016 and are not considered to be part of the underlying business as they are not expected to recur once the realignment of properties has been completed. This treatment is expected to apply for five years following the implementation of the Pubs Code which will allow for a full cycle of rent reviews over which time the Group will assess the optimal location for each asset which may include the payment of an assignment premium to allow the Group access to the property.

In addition, following the reorganisation of a number of support teams in the business in the prior year at a cost of £3 million, a further £1 million has been incurred in the current year to conclude this exercise. These charges have been allocated to non-underlying as they are one-off in nature.

A tax credit of £1 million (2017: £2 million) has been recognised in relation to these costs.

b) Profit on sale of controlling interest in subsidiary undertaking

On 21 September 2018 the Group completed the sale of its 51% controlling interest in Hunky Dory Pubs Limited, a company established in May 2016 with Oakman Inns to operate pubs, generating a profit on disposal of £1 million. The proceeds from the sale remain outstanding at 30 September 2018 and are included in the financial assets on the balance sheet.

5. Non-underlying items (Continued)

c) Net loss on sale of property

	2018	2017
	£m	£m
Profit on sale of property, plant and equipment	**11**	13
Loss on sale of property, plant and equipment	**(8)**	(5)
Net profit on sale of property, plant and equipment	**3**	8
Profit on sale of investment property	**—**	3
Loss on sale of investment property	**(1)**	(1)
Net (loss)/profit on sale of investment property	**(1)**	2
Net profit on sale of property before goodwill allocation	**2**	10
Goodwill allocated to disposals	**(8)**	(10)
Net loss on sale of property	**(6)**	—

The tax impact of the sale of properties and other assets is set out in note 11.

During the year 174 properties (2017: 224 properties) and various other plots of land with a book value of £64 million (2017: £86 million) were disposed of generating gross proceeds of £71 million (2017: £109 million) which, after taking account of disposal costs resulted in an overall profit of £2 million (2017: £10 million).

Included within the total profits on sale of property above of £11 million, £5 million related to 18 properties and various plots of land with a 'special interest' value to particular buyers. The remaining profits of £6 million arose on 69 properties sold at an average profit of £83,000. The total losses on sale of property above of £9 million related to 87 properties sold at an average loss of £103,000.

In accordance with IAS 36 purchased goodwill is allocated to operations disposed of. Accordingly, goodwill of £8 million (2017: £10 million) has been allocated to the 174 properties (2017: 224 properties) disposed of during the year.

d) Movements in valuation of the estate and related assets

	2018	2017
	£m	£m
Movement in property, plant and equipment from revaluation of the estate (see note 15)	**(23)**	(11)
Movement in investment property from revaluation of the estate (see note 16)	**15**	7
Revaluation movement from retained estate	**(8)**	(4)
Revaluation of non-current assets held for sale (see note 15)	**(11)**	(20)
	(19)	(24)

There is no current tax expense associated with these movements. A deferred tax credit of £3 million (2017: £4 million) arises as a result of the revaluation and write down of these properties (see note 11c).

Of the £11 million revaluation of non-current assets held for sale (2017: £20 million), £5 million (2017: £11 million) related to properties held in non-current assets held for sale at the year end.

e) Finance costs

During the year ended 30 September 2018, Unique securitised bonds with a nominal and book value of £4 million (2017: £nil) were purchased and cancelled for the equivalent price of £1.14 (2017: £nil) for each £1 of outstanding nominal value, generating a loss of £1 million (2017: £nil).

On 6 July 2018 the Group concluded a consent solicitation exercise to amend certain terms within the Unique securitisation documents to allow greater flexibility over disposals of pubs that are not subject to the tie. This has been accounted for as a non-substantial modification and the total costs and cash outflow of £4 million has been included in the carrying value of the Unique bonds.

5. Non-underlying items (Continued)

Furthermore, on 14 August 2018 the Group completed an increase and two-year extension of its £140 million existing revolving credit facility (RCF). The new maximum facility is £150 million and it is now available until August 2022. This has been accounted for as a non-substantial modification and the total costs and cash outflow of £1 million has been included in the carrying value of the RCF.

On 25 September 2018 the Group issued a new £150 million bond and at the same time a tender offer for the £97 million outstanding convertible bonds. The proceeds of the bond were received on 25 September 2018. The bond has a fixed coupon of 7.5% and is repayable in March 2024. The costs incurred of £4 million (£2 million cash outflow in the year) have been included in the carrying value of the debt.

The tender offer for the convertible bonds resulted in £95.4 million of the bonds being redeemed at a premium of 107% of their par value. Of the premium and fees associated with the tender offer totalling £7 million, £5 million has been charged to the income statement in non-underlying finance costs, whilst £2 million has been recognised in the other reserve representing the equity element of the redemption. On 27 September 2018 the Group issued an optional redemption notice to redeem the remaining £1.6 million of convertible bonds at par. This was completed subsequent to the year end on 12 November 2018.

In the prior year, on 24 October 2016 the Group replaced its existing £138 million RCF with a new £120 million facility. Furthermore, on 14 March 2017 the £120 million non-amortising RCF was increased in size to £140 million on the same terms. The facility was available through to August 2020 and attracted an interest rate of 3% above LIBOR applicable to any drawn portion of the facility.

In addition in the prior year, on 4 November 2016 the Group completed a partial refinancing of the 2018 corporate bond. The partial refinancing resulted in a lower interest coupon and an extended debt maturity. Prior to the refinancing £350.5 million of 2018 secured corporate bonds were outstanding with a coupon of 6.5%. The Group received and accepted tender instructions for £250 million of these bonds at a cash purchase price of 111% of their principal amount. In connection with this partial refinancing the Group issued new £250 million secured corporate bonds, due in February 2022, at a coupon of 6.375%, which resulted in a reduction of the corporate bonds maturing in 2018 to £100.5 million. The new issue benefited from a security package on substantially the same terms as the 2018 bonds.

The total cash outflow arising from the bank and bond refinancing in the prior year was £32 million, being £28 million in respect of the repurchase premium on the extinguished bond, which was charged to the income statement, and total fees and disbursements of £4 million, of which £2 million was charged to the income statement and £2 million arising on the new bank facility was deferred over the life of the new debt instrument. Furthermore on 19 September 2017 the Group signed a new £50 million term loan facility, available for drawing until December 2018 with repayment of the amount drawn due by July 2020 which resulted in £1 million of fees that were deferred over the life of the new facility.

A tax credit of £1 million (2017: £6 million) has been recognised on the non-underlying finance costs.

6. Revenue

	2018	2017
	£m	£m
Drink revenue	**514**	473
Rent revenue	**151**	154
Food revenue	**15**	9
Revenue from amusement and other machines	**13**	11
Other revenue	**2**	1
	695	648

7. Operating profit

Operating profit is stated after charging:

	2018	2017
	£m	£m
Cost of inventories	**251**	243
Other direct selling costs	**8**	6
Managed house running costs	**70**	38
Operating lease rentals	**24**	23
Other property costs	**11**	9
Administrative charges	**44**	42
Non-underlying administrative charges	**5**	9
	413	370
Depreciation and amortisation	**19**	17
	432	387

8. Auditor's remuneration

(This note is shown rounded to the nearest £000)

A description of the work of the Audit Committee is set out in the Audit Committee Report on pages 51 to 55 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor.

	2018	2017
	£000	£000
Group audit fees	**224**	189
Audit fees in respect of subsidiaries	**105**	76
Audit related assurance services	**25**	25
Other assurance services	**170**	54
Non-audit services	**12**	16
	536	360

Of the non-audit assurance related fees and non-audit services above of £182,000 (2017: £70,000), £182,000 (2017: £70,000) represents work required to be performed by the auditor under law, regulation or the terms of the Group's financing arrangements. Excluding these amounts, the ratio of non-audit fees to audit fees was nil (2017: nil). Within other assurance services above is £170,000 in relation to assurance reporting as part of the issuance of a new corporate bond (2017: £54,000).

Group audit fees include £158,000 (2017: £154,000) paid to the auditor for the audit of the Parent Company. Fees paid to the auditor in respect of non-audit services provided to the Parent Company are not required to be disclosed because the Group financial statements are only required to disclose such fees on a consolidated basis.

9. Staff costs

	Group		Company	
	2018	2017	2018	2017
	£m	£m	£m	£m
Wages and salaries	**52**	44	**33**	33
Social security costs	**5**	5	**4**	4
Other pension costs	**2**	2	**2**	2
	59	51	**39**	39

Included in wages and salaries is an expense relating to share-based payments of £2 million (2017: £3 million). All of this expense arises from transactions accounted for as equity-settled share-based payments (see note 30).

9. Staff costs (Continued)

Other pension costs represents payments made into employees' individual defined contribution plans.

The average monthly number of employees comprised:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	No.	**No.**	**No.**	**No.**
Operations staff	**1,558**	1,058	**261**	259
Administration staff	**314**	311	**314**	311
	1,872	1,369	**575**	570

Directors' remuneration is summarised below to the nearest £000 with full detail given in the directors' remuneration report.

	2018	**2017**
	£000	**£000**
Directors' remuneration*	**2,192**	2,252
Executive directors' pensions	**223**	218
Share-based payments†	**903**	854

* Comprises fees, salary, benefits and performance-related bonus.
† Fair value of share-based payments charged to the income statement during the year.

In addition to the above, gains arising on LTIPs that have vested and been exercised in the year by executive directors amounted to £38,000 (2017: £518,000).

10. Finance costs

	2018	**2017**
	£m	**£m**
Bank borrowings	**4**	4
Corporate bonds/securitised bonds	**140**	144
Other interest payable and finance costs	**2**	1
Total underlying finance costs	**146**	149
Non-underlying finance costs:		
Other interest payable and finance costs	**6**	30
Non-underlying finance costs	**6**	30
Total net finance costs	**152**	179

11. Taxation

a) Total tax expense recognised in the income statement

	2018			2017		
	Underlying items	Non-underlying items	Total	Underlying items	Non-underlying items	Total
	£m	£m	£m	£m	£m	£m
Current tax						
UK corporation tax	**23**	**(2)**	**21**	20	(7)	13
Adjustments in respect of prior years	**(4)**	**—**	**(4)**	(2)	—	(2)
Total current tax	**19**	**(2)**	**17**	18	(7)	11
Deferred tax						
Origination and reversal of temporary differences	**3**	**(9)**	**(6)**	4	(12)	(8)
Adjustments in respect of prior years	**—**	**4**	**4**	—	1	1
Total deferred tax	**3**	**(5)**	**(2)**	4	(11)	(7)
Taxation	**22**	**(7)**	**15**	22	(18)	4

b) Tax charge reconciliation

	2018			2017		
	Underlying items	Non-underlying items	Total	Underlying items	Non-underlying items	Total
	£m	£m	£m	£m	£m	£m
Profit/(loss) before tax	**122**	**(35)**	**87**	121	(63)	58
Profit/(loss) on ordinary activities before tax at 19.0% (2017: 19.5%)	**23**	**(7)**	**16**	24	(12)	12
Effects of:						
Non taxable expenses/(income) not deductible for tax purposes	**3**	**(3)**	**—**	—	(3)	(3)
Movement in the deferred tax liability for retained properties due to indexation*	**—**	**(1)**	**(1)**	—	(4)	(4)
Adjustments in respect of prior years	**(4)**	**4**	**—**	(2)	1	(1)
Total tax charge/(credit) in the income statement	**22**	**(7)**	**15**	22	(18)	4

* On transition to IFRS under IAS 12, a deferred tax liability was recognised on the balance sheet relating to the revaluation of the estate and gains previously rolled over, or due to be rolled over into other assets. The deferred tax liability that would have been in place at the time of business combinations that have occurred since 1 January 1999 resulted in the recognition of additional goodwill of £330 million as the fair value of the net assets acquired had been reduced. As this pre-acquisition liability changes due to capital gains indexation relief and disposals, the movement has been recognised in the income statement. The non-underlying indexation credit for the year ended 30 September 2018 is £1 million (2017: £4 million). This has been classed as a non-underlying tax item due to its size and because it does not relate to any income or expense recognised in the income statement in the same period.

11. Taxation (Continued)

c) Deferred tax recognised in the income statement

	2018			2017		
	Underlying items	Non-underlying items	Total	Underlying items	Non-underlying items	Total
	£m	£m	£m	£m	£m	£m
Temporary differences	**1**	**—**	**1**	1	—	1
Accelerated capital allowances	**2**	**(3)**	**(1)**	3	(4)	(1)
Deferred tax on the movement in valuation of the estate*	**—**	**(5)**	**(5)**	—	(4)	(4)
Movement in the deferred tax liability for retained properties due to indexation	**—**	**(1)**	**(1)**	—	(4)	(4)
Adjustments in respect of prior years	**—**	**4**	**4**	—	1	1
	3	**(5)**	**(2)**	4	(11)	(7)

* The £5 million (2017: £4 million) deferred tax credit on the movement in valuation of the pub estate includes a credit of £3 million (2017: £4 million), being the tax effect of the £19 million (2017: £24 million) non-underlying movement in the valuation of the pub estate and related assets in the income statement (see note 5), a tax charge of £1 million (2017: £2 million) in respect of properties disposed, and a net £3 million credit (2017: £2 million) for other tax differences based on a tax rate of 17% (2017: 17%).

d) Tax recognised directly in other comprehensive income

	2018	2017
	£m	£m
Movement in deferred tax liability related to revaluation of the estate	**—**	3
Tax credit in other comprehensive income	**—**	3

The movement in the deferred tax liability relating to revaluation of property and rolled over gains is calculated as follows:

	2018	2017
	£m	£m
Tax effect of revaluation of property and properties sold and awaiting sale	**(2)**	(1)
Movement in indexation during the year	**2**	4
Total movement as above	**—**	3

12. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders for the year divided by the weighted average number of equity shares in issue during the year after excluding shares held by trusts relating to employee share options and shares held in treasury.

Underlying earnings per share, which the directors believe reflects the underlying performance of the Group, is based on profit attributable to ordinary shareholders adjusted for the effects of non-underlying items net of tax, divided by the weighted average number of equity shares in issue during the year after excluding shares held by trusts relating to employee share options and shares held in treasury.

The dilution adjustments for share options and the convertible bonds are reviewed independently and where they are dilutive to the calculation of basic diluted earnings per share they are included in the calculation of both basic diluted and underlying diluted earnings per share.

For the year ended 30 September 2018, the adjustment for share options is assessed as being dilutive (2017: dilutive) which has resulted in an adjustment to the weighted average number of equity shares in issue during the year of 5.4 million shares (2017: 3.5 million shares).

For the year ended 30 September 2018, the adjustment for the convertible bonds is assessed as being dilutive (2017: dilutive) which has resulted in an adjustment to profit in the calculation of diluted earnings

12. Earnings per share (Continued)

per share of £5.7 million (2017: £5.5 million) for the post tax interest cost associated with the convertible bonds and an adjustment to the weighted average number of equity shares in issue during the period of 50.1 million shares (2017: 50.8 million shares).

	2018		2017	
	Earnings	Per share amount	Earnings	Per share amount
	£m	p	£m	p
Basic earnings per share	**71.7**	**15.2**	53.8	11.2
Diluted earnings per share	**77.4**	**14.7**	59.3	11.1
Underlying earnings per share	**99.7**	**21.2**	98.9	20.5
Underlying diluted earnings per share	**105.4**	**20.0**	104.4	19.5

	2018	2017
	m	m
Weighted average number of shares	**470.9**	481.9
Dilutive share options	**5.4**	3.5
Dilutive convertible loan note shares	**50.1**	50.8
Diluted weighted average number of shares	**526.4**	536.2

Following redemption of 98% of the nominal value of convertible bonds before the current year end, a pro-rated number of shares has been taken into account in the calculation of diluted weighted average number of shares and a pro-rated value of post-tax interest cost has been added back to the profit in the year.

13. Goodwill

	2018	2017
	£m	£m
At 1 October	**312**	321
Goodwill arising on new business combinations	**—**	1
Allocated to disposals	**(8)**	(10)
At 30 September	**304**	312

Business combination

During the prior year the Group purchased 51% of the share capital of Bestplace Limited, a small boutique hostel operator in London, for consideration of £1 million. Goodwill of £1 million has arisen on the transaction being the excess of the consideration over the fair value of the tangible and intangible assets and liabilities, and this goodwill has been allocated to the managed segment.

Allocation to disposals

In accordance with IAS 36 goodwill is allocated to operations disposed of and accordingly, goodwill of £8 million (2017: £10 million) has been allocated to the 174 pubs (2017: 224 pubs) disposed of during the year.

Impairment testing

Goodwill acquired via business combinations is tested annually for impairment. At 30 September 2018 the goodwill has been allocated to the operating segments described in note 4. Within these segments the goodwill is tested for impairment by comparing the recoverable amount of each segment to the carrying amount. The recoverable amount is the higher of fair value less costs of disposal and value in use.

The carrying amount of goodwill allocated to the Publican Partnerships segment was £248 million (2017: £271 million) with the balance allocated to the Commercial Properties segment of £31 million (2017: £24 million) and Managed segment of £25 million (2017: £17 million).

13. Goodwill (Continued)

Within each segment value in use is calculated using budgeted EBITDA and forecasts of cash flows over a three year period, as prepared for the Board, adjusted to reflect the current segmentation of the estate. The three year cash flows continue to be risk adjusted to reflect a conservative outlook and are adjusted to reflect the forecast level of disposals. The key assumptions in these estimates are trading margin, rent projections and levels of working capital required to support trading. Key assumptions have been assigned values by management using estimates based on past experience and expectations of future changes in the market. These assumptions have been reviewed by the Board and are believed to be reasonable. Cash flows beyond three years are extrapolated using a 2% growth rate in operating income (2017: 2%) which was selected as prudently below the Group's estimate of the long-term average growth rate. The key driver to maintaining the growth rate is management's focus on selecting and supporting the best publicans, whilst meeting the challenges of changing consumer demand. The forecast cash flows are then discounted to give a value in use.

The discount rate used is based on the Group weighted average cost of capital (WACC), which has been risk adjusted to reflect current market factors which have not already been captured within the cash flows. In making this adjustment to the Group WACC, management have risk adjusted the cost of debt and the cost of equity by using an average of the highest three market risk premiums and Company betas obtained from four advisers at the year end date. The cost of equity has been further inflated by using a theoretical share price derived from peer group data. The pre-tax risk adjusted discount rate used in the testing at 30 September 2018 was 7.8% (2017: 7.8%), this has been reviewed and considered appropriate for each operating segment as risk factors are considered to be similar.

As at 30 September 2018, the headroom on the impairment test is £786 million (2017: £717 million) for the Publican Partnerships segment, £82 million (2017: £74 million) for the Commercial Properties segment and £241 million (2017: £254 million) for the Managed segment. The pre-tax adjusted discount rate could increase to 9.3% (2017: 9.1%) for the Publican Partnerships segment, 9.0% (2017: 9.2%) for the Commercial Properties segment and 9.5% (2017: 11.0%) for the Managed segment before any impairment would be required. Management have considered the volatility in the current economic climate within the risk adjusted cash flows and the growth rate of any cash flows beyond the budget period would need to fall to 0.2% (2017: 0.5%) for the Publican Partnerships segment, 0.7% (2017: 0.4%) for the Commercial Properties segment and 0.1% (2017: 0%) for the Managed segment before any impairment would be required. There is no impairment to goodwill in the current or prior period.

14. Intangible assets: operating lease premiums

	Group		Company	
	2018	**2017**	**2018**	**2017**
	£m	**£m**	**£m**	**£m**
Cost:				
At 1 October and 30 September	**14**	14	**7**	7
Amortisation:				
At 1 October and 30 September	**5**	5	**3**	3
Net book value:				
At 30 September	**9**	9	**4**	4
At 1 October	**9**	9	**4**	4

Lease premiums are amortised on a straight-line basis over the remaining life of the lease. The remaining operating lease terms vary from 1 to 92 years.

There are 46 properties within the Group and 28 properties within the Parent Company attracting operating lease premiums in 2018 (2017: 48 properties in the Group and 28 properties in the Parent Company).

15. Property, plant and equipment

	Group			
	Licensed land and buildings	Landlord's fixtures and fittings	Other assets	Total
	£m	£m	£m	£m
Cost or valuation				
At 1 October 2016	3,206	272	42	3,520
Additions	41	42	7	90
Revaluation:				
— Recognised in the statement of comprehensive income	11	—	—	11
— Recognised in the income statement	(11)	—	—	(11)
Revaluation of assets on transfer to investment property:				
— Recognised in the statement of comprehensive income	1	—	—	1
Net transfers to investment property	(79)	(8)	—	(87)
Revaluation of assets on transfer to non-current assets held for sale:				
— Recognised in the statement of comprehensive income	(6)	—	—	(6)
— Recognised in the income statement	(20)	—	—	(20)
Net transfers to non-current assets held for sale	(60)	(14)	—	(74)
Disposals	—	(7)	(2)	(9)
At 1 October 2017	**3,083**	**285**	**47**	**3,415**
Additions	**46**	**41**	**5**	**92**
Revaluation:				
— Recognised in the statement of comprehensive income	**8**	**—**	**—**	**8**
— Recognised in the income statement	**(23)**	**—**	**—**	**(23)**
Net transfers to investment property	**(81)**	**(8)**	**—**	**(89)**
Revaluation of assets on transfer to non-current assets held for sale:				
— Recognised in the income statement	**(11)**	**—**	**—**	**(11)**
Net transfers to non-current assets held for sale	**(37)**	**(9)**	**—**	**(46)**
Disposals	**(1)**	**(12)**	**(5)**	**(18)**
At 30 September 2018	**2,984**	**297**	**47**	**3,328**
Depreciation				
At 1 October 2016	15	54	17	86
Revaluation on transfer to investment property	—	(2)	—	(2)
Charge for the year	2*	12	3	17
Net transfers to non-current assets held for sale	(1)	(3)	—	(4)
Disposals	—	(2)	(2)	(4)
At 1 October 2017	**16**	**59**	**18**	**93**
Revaluation on transfer to investment property	**—**	**(2)**	**—**	**(2)**
Charge for the year	**2***	**14**	**3**	**19**
Net transfers to non-current assets held for sale	**(1)**	**(1)**	**—**	**(2)**
Disposals	**—**	**(5)**	**(3)**	**(8)**
At 30 September 2018	**17**	**65**	**18**	**100**
Net book value				
At 30 September 2018	**2,967**	**232**	**29**	**3,228**
At 30 September 2017	3,067	226	29	3,322

* Relates to finance lease amortisation

15. Property, plant and equipment (Continued)

	Company			
	Licensed land and buildings	Landlord's fixtures and fittings	Other assets	Total
	£m	£m	£m	£m
Cost or valuation				
At 1 October 2016	1,655	170	39	1,864
Additions	36	21	7	64
Revaluation:				
— Recognised in the statement of comprehensive income	(1)	—	—	(1)
— Recognised in the income statement	(15)	—	—	(15)
Revaluation of assets on transfer to non-current assets held for sale:				
— Recognised in the statement of comprehensive income	(6)	—	—	(6)
— Recognised in the income statement	(13)	—	—	(13)
Net transfers to non-current assets held for sale	(41)	(11)	—	(52)
Net transfers to investment property	(49)	(5)	—	(54)
Disposals	—	(4)	(2)	(6)
At 1 October 2017	**1,566**	**171**	**44**	**1,781**
Additions	**32**	**21**	**5**	**58**
Revaluation:				
— Recognised in the income statement	**(15)**	**—**	**—**	**(15)**
Revaluation of assets on transfer to investment property:				
— Recognised in the statement of comprehensive income	**(2)**	**—**	**—**	**(2)**
Net transfers to investment property	**(51)**	**(6)**	**—**	**(57)**
Revaluation of assets on transfer to non-current assets held for sale:				
— Recognised in the statement of comprehensive income	**(2)**	**—**	**—**	**(2)**
— Recognised in the income statement	**(7)**	**—**	**—**	**(7)**
Net transfers to non-current assets held for sale	**(17)**	**(5)**	**—**	**(22)**
Disposals	**—**	**(7)**	**(5)**	**(12)**
At 30 September 2018	**1,504**	**174**	**44**	**1,722**
Depreciation				
At 1 October 2016	5	33	17	55
Revaluation on transfer to investment property	—	(1)	—	(1)
Charge for the year	1*	6	3	10
Net transfers to non-current assets held for sale	—	(3)	—	(3)
Disposals	—	—	(2)	(2)
At 1 October 2017	**6**	**35**	**18**	**59**
Revaluation on transfer to investment property	**—**	**(1)**	**—**	**(1)**
Charge for the year	**1***	**7**	**3**	**11**
Net transfers to non-current assets held for sale	**(1)**	**—**	**—**	**(1)**
Disposals	**—**	**(3)**	**(3)**	**(6)**
At 30 September 2018	**6**	**38**	**18**	**62**
Net book value				
At 30 September 2018	**1,498**	**136**	**26**	**1,660**
At 30 September 2017	1,560	136	26	1,722

* Relates to finance lease amortisation

15. Property, plant and equipment (Continued)

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

	Group	Company
	Licensed land and buildings	Licensed land and buildings
	£m	£m
At 30 September 2018		
Cost	**2,514**	**1,195**
Accumulated depreciation	**(30)**	**(18)**
Net book value	**2,484**	**1,177**
At 30 September 2017		
Cost	2,602	1,237
Accumulated depreciation	(30)	(19)
Net book value	2,572	1,218

Within the Group the carrying value of property held under finance leases at 30 September 2018 was £98 million (2017: £100 million). Additions during the year include £4 million to property held under finance leases (2017: £3 million). Within the Parent Company the carrying value of property held under finance leases at 30 September 2018 was £28 million (2017: £30 million). Additions during the year include £1 million to property held under finance leases (2017: £1 million).

At 30 September 2017, the Group had entered into contractual commitments to purchase £6 million (2017: £6 million) of property, plant and equipment. At 30 September 2018, the Parent Company had entered into contractual commitments to purchase £5 million (2017: £3 million) of property, plant and equipment.

16. Investment property

	Group	Company
	£m	£m
Valuation		
At 1 October 2016	196	82
Additions	3	—
Net transfers from property, plant and equipment	85	53
Revaluation	7	3
Net transfers to non-current assets held for sale	(21)	(19)
At 1 October 2017	**270**	**119**
Net transfers from property, plant and equipment	**87**	**56**
Revaluation	**15**	**4**
Net transfers to non-current assets held for sale	**(4)**	**(4)**
At 30 September 2018	**368**	**175**

Within the Group the carrying value of property held under finance leases at 30 September 2018 was £15 million (2017: £14 million). Additions during the year include £nil to property held under finance leases (2017: £nil). Within the Parent Company the carrying value of property held under finance leases at 30 September 2018 was £9 million (2017: £9 million). Additions during the year include £nil to property held under finance leases (2017: £nil).

17. Non-current assets held for sale

	Group		Company	
	2018	2017	2018	2017
	£m	£m	£m	£m
At 1 October	**25**	21	**12**	10
Net transfer from property, plant and equipment (see note 15)	**44**	70	**21**	49
Net transfer from investment property (see note 16)	**4**	21	**4**	19
Write down to fair value less costs to dispose	**(1)**	(1)	**(1)**	—
Disposals	**(59)**	(86)	**(29)**	(66)
At 30 September	**13**	25	**7**	12
Representing:				
Property, plant and equipment	**13**	24	**7**	11
Investment property	**—**	1	**—**	1
	13	25	**7**	12

Non-current assets held for sale comprises properties that have been identified by the Group for disposal as part of the continued disposal programme. The sale of all assets within this category is expected to be completed within one year of the balance sheet date.

At the end of the year non-current assets held for sale in the Group includes 47 properties (2017: 85 properties). Within the Group a balance of £1 million (2017: £2 million) in relation to these properties is held within the revaluation reserve representing revaluation surpluses.

At the end of the year non-current assets held for sale in the Parent Company includes 25 properties which are expected to be sold within the next year (2017: 40 properties). Within the Parent Company a balance of £1 million (2017: £1 million) in relation to these properties is held within the revaluation reserve representing revaluation surpluses.

18. Property fair value measurements

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

Revaluation of property, plant and equipment

Valuations are carried out on an annual basis at each year end date. With the exception of properties identified for disposal and transferred to non-current assets held for sale, the Group's properties were revalued as at 30 September 2018 by GVA Grimley Limited or Colliers International Property Advisers UK LLP, independent Chartered Surveyors, or by the internal Estates Director, Simon Millar MRICS, Chartered Surveyor. For further analysis of the pubs valued by valuer see table below.

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

Property assets held in property, plant and equipment were valued using fair maintainable trade income (FMT) capitalised at an appropriate rate of return (as defined within RICS Valuation—2017 Global Edition) or an equivalent multiple. This method of valuation involves making an assessment of the fair maintainable rent, wholesale and machine income that can be generated from the property assuming they are run by a reasonably efficient operator, taking into account future trading potential. This assessment of profit is then capitalised at an appropriate multiple to reflect the risks and rewards of the property. In determining the multiple to use, the valuers consider evidence of comparable market transactions. The resulting fair value of the pub represents the land and buildings and any fixed landlords' fixtures and fittings. The valuation of the managed pub assets is prepared using a consistent approach that effectively capitalises the net income attributable to the Group from operating the pub at an appropriate multiple.

Property assets held in investment property include free-of-tie pubs let to tenants at open market rents and non-pub assets, which are predominantly blue-chip let convenience stores. These assets have been valued adopting the investment method of valuation. By reference to the rents, fixed lease terms and market

18. Property fair value measurements (Continued)

conditions, an appropriate multiple based on comparable market transactions is applied, discounting future rental receipts back to present value.

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

The impact of the Group revaluation is as follows:

	2018 £m	2017 £m
Income statement		
Revaluation loss charged as an impairment	**(50)**	(47)
Reversal of past impairments	**27**	36
Gains on revaluation of investment property	**17**	9
Losses on revaluation of investment property	**(2)**	(2)
	(8)	(4)

	2018 £m	2017 £m
Revaluation reserve		
Unrealised surplus	**69**	69
Reversal of past revaluation surplus	**(61)**	(58)
	8	11

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

	FMT income bandings					
	Group					
		Multiple applied to FMT				
Number of pub assets—within property, plant and equipment	Total number	over 12 times	10 - 12 times	8 - 10 times	6 - 8 times	under 6 times
At 30 September 2017						
more than £90,000 per annum	1,378	84	483	656	123	32
£60,000 to £90,000 per annum	1,682	73	579	804	180	46
less than £60,000 per annum	1,008	43	304	483	139	39
	4,068	200	1,366	1,943	442	117
At 30 September 2018						
more than £90,000 per annum	**1,421**	**82**	**489**	**685**	**135**	**30**
£60,000 to £90,000 per annum	**1,523**	**67**	**535**	**744**	**145**	**32**
less than £60,000 per annum	**915**	**46**	**263**	**427**	**137**	**42**
	3,859	**195**	**1,287**	**1,856**	**417**	**104**

18. Property fair value measurements (Continued)

Number of pub assets—within non-current assets held for sale	FMT income bandings — Group — Multiple applied to FMT: Total number	over 12 times	10 - 12 times	8 - 10 times	6 - 8 times	under 6 times
At 30 September 2017						
more than £90,000 per annum	—	—	—	—	—	—
£60,000 to £90,000 per annum	2	—	1	—	—	1
less than £60,000 per annum	83	28	8	4	7	36
	85	28	9	4	7	37
At 30 September 2018						
more than £90,000 per annum	**—**	**—**	**—**	**—**	**—**	**—**
£60,000 to £90,000 per annum	**2**	**—**	**—**	**2**	**—**	**—**
less than £60,000 per annum	**45**	**12**	**1**	**4**	**7**	**21**
	47	**12**	**1**	**6**	**7**	**21**

Number of assets—within investment property	Income bandings — Multiple applied to income: Total number	over 16 times	14 - 16 times	12 - 14 times	10 - 12 times	under 10 times
At 30 September 2017						
more than £90,000 per annum	67	5	9	40	8	5
£60,000 to £90,000 per annum	93	9	17	40	17	10
less than £60,000 per annum	146	8	20	51	42	25
	306	22	46	131	67	40
At 30 September 2018						
more than £90,000 per annum	**99**	**4**	**26**	**49**	**17**	**3**
£60,000 to £90,000 per annum	**130**	**8**	**27**	**67**	**21**	**7**
less than £60,000 per annum	**156**	**10**	**29**	**66**	**30**	**21**
	385	**22**	**82**	**182**	**68**	**31**

Number of pub assets—within property, plant and equipment	FMT income bandings — Company — Multiple applied to FMT: Total number	over 12 times	10 - 12 times	8 - 10 times	6 - 8 times	under 6 times
At 30 September 2017						
more than £90,000 per annum	664	16	302	295	44	7
£60,000 to £90,000 per annum	869	20	426	362	43	18
less than £60,000 per annum	551	20	245	223	50	13
	2,084	56	973	880	137	38
At 30 September 2018						
more than £90,000 per annum	**677**	**20**	**313**	**294**	**41**	**9**
£60,000 to £90,000 per annum	**808**	**23**	**403**	**339**	**33**	**10**
less than £60,000 per annum	**483**	**19**	**210**	**185**	**54**	**15**
	1,968	**62**	**926**	**818**	**128**	**34**

18. Property fair value measurements (Continued)

Number of pub assets—within non-current assets held for sale	FMT income bandings					
	Company					
	Multiple applied to FMT					
	Total number	over 12 times	10 - 12 times	8 - 10 times	6 - 8 times	under 6 times
At 30 September 2017						
more than £90,000 per annum	—	—	—	—	—	—
£60,000 to £90,000 per annum	1	—	—	—	—	1
less than £60,000 per annum	39	15	5	1	2	16
	40	15	5	1	2	17
At 30 September 2018						
more than £90,000 per annum	**—**	**—**	**—**	**—**	**—**	**—**
£60,000 to £90,000 per annum	**—**	**—**	**—**	**—**	**—**	**—**
less than £60,000 per annum	**25**	**10**	**—**	**2**	**2**	**11**
	25	**10**	**—**	**2**	**2**	**11**

Number of assets—within investment property	Income bandings					
	Multiple applied to income					
	Total number	over 16 times	14 -16 times	12 -14 times	10 - 12 times	under 10 times
At 30 September 2017						
more than £90,000 per annum	26	—	—	16	5	5
£60,000 to £90,000 per annum	53	4	10	29	7	3
less than £60,000 per annum	71	1	10	27	15	18
	150	5	20	72	27	26
At 30 September 2018						
more than £90,000 per annum	**45**	**—**	**4**	**27**	**12**	**2**
£60,000 to £90,000 per annum	**79**	**3**	**9**	**50**	**13**	**4**
less than £60,000 per annum	**75**	**2**	**9**	**38**	**11**	**15**
	199	**5**	**22**	**115**	**36**	**21**

Sensitivity analysis table

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

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

	Group		Company	
	2018	2017	2018	2017
	£m	£m	£m	£m
FMT sensitivity				
+ 2.5%	**89**	89	**46**	46
- 2.5%	**(89)**	(89)	**(46)**	(46)
Multiple sensitivity				
+ 0.25	**91**	91	**46**	46
- 0.25	**(91)**	(91)	**(46)**	(46)

The properties used as security for the corporate bonds in Ei Group plc have been valued by GVA Grimley Limited (1,948 properties) and all properties held by Unique Pub Properties Limited (Unique) have been valued by Colliers International Property Advisers UK LLP (2,077 properties). The balance of

18. Property fair value measurements (Continued)

the estate held in Ei Group plc (219 properties) have been valued by the internal Estates Director using RICS valuation guidelines. The results of this internal valuation have been compared to that of the external valuers, to ensure that the results are consistent.

The following table provides a reconciliation of property numbers:

At 30 September 2018	Property, plant and equipment	Investment property	Non-current assets held for sale	Add operating leases*	Total properties	Less non-viable and closed properties	Total trading properties
Properties valued by GVA Grimley Limited	**1,803**	**145**	**—**	**—**	**1,948**	**(7)**	**1,941**
Properties valued internally	**165**	**54**	**—**	**—**	**219**	**(1)**	**218**
Other	**—**	**—**	**25**	**209**	**234**	**(17)**	**217**
Total Parent Company	**1,968**	**199**	**25**	**209**	**2,401**	**(25)**	**2,376**
Properties valued by Colliers International Property Advisers UK LLP	**1,891**	**186**	**—**	**—**	**2,077**	**(1)**	**2,076**
Other	**—**	**—**	**22**	**24**	**46**	**(13)**	**33**
Total Group	**3,859**	**385**	**47**	**233**	**4,524**	**(39)**	**4,485**

At 30 September 2017	Property, plant and equipment	Investment property	Non-current assets held for sale	Add operating leases*	Total properties	Less non-viable and closed properties	Total trading properties
Properties valued by GVA Grimley Limited	1,881	103	—	—	1,984	(3)	1,981
Properties valued by Colliers International Property Advisers UK LLP	3	2	—	—	5	—	5
Properties valued internally	200	45	—	—	245	(2)	243
Other	—	—	40	214	254	(21)	233
Total Parent Company	2,084	150	40	214	2,488	(26)	2,462
Properties valued by Colliers International Property Advisers UK LLP	1,984	156	—	—	2,140	—	2,140
Other	—	—	45	25	70	(34)	36
Total Group	4,068	306	85	239	4,698	(60)	4,638

* not subject to valuation

19. Investments

	Company	
	2018	2017
	£m	£m
Cost or valuation		
At 1 October	**1,790**	1,790
Impairment	**(29)**	—
At 30 September	**1,761**	1,790

At the year end, the Company has carried out an impairment review of its investment in the Unique sub-group which involved calculating a value in use using forecast cash flows discounted at 7.75% (2017: 7.75%) based on the Group's pre-tax risk adjusted WACC and a long-term growth rate appropriate to the Unique sub-group of 2.0% (2017: 2.3%). Following the reassessment of the growth rate the recoverable amount of the Unique sub-group has been determined as £1,687 million (2017: £1,828 million), resulting in

19. Investments (Continued)

an impairment of £29 million (2017: headroom of £112 million) which has been recorded in the period. As an assessment of theoretical sensitivities to this impairment review calculation, an increase of 0.25% in the discount rate used would result in a further impairment of £115 million (2017: an impairment of £15 million) or a decrease of 0.25% in the discount rate used would result in headroom of £97 million (2017: increase the headroom to £253 million). Similarly an increase of 0.25% in the long-term growth rate used would result in headroom of £109 million (2017: £267 million) or a decrease of 0.25% in the long-term growth rate used would result in a further impairment of £126 million (2017: an impairment of £28 million).

The Parent Company's subsidiaries are listed in note 33.

20. Inventories

	Group		Company	
	2018	**2017**	**2018**	**2017**
	£m	**£m**	**£m**	**£m**
Goods for resale	**3**	2	**—**	—

21. Trade and other receivables

Trade receivables due in more than one year represents money owed by publicans for the sale of fixtures and fittings on deferred terms and part of the balance is due in more than one year.

	Group		Company	
	2018	**2017**	**2018**	**2017**
	£m	**£m**	**£m**	**£m**
Trade receivables	**3**	2	**2**	1

Trade and other receivables within current assets represents the following:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	£m	**£m**	**£m**	**£m**
Trade receivables	**40**	39	**29**	29
Amounts owed by subsidiary undertakings	**—**	—	**647**	622
Prepayments and accrued income	**11**	10	**8**	8
Other receivables	**4**	4	**1**	1
	55	53	**685**	660

	Group		Company	
	2018	**2017**	**2018**	**2017**
	£m	**£m**	**£m**	**£m**
The ageing of total trade receivables at 30 September was as follows:				
Not past due	**40**	40	**29**	30
Up to 30 days overdue	**3**	1	**2**	—
	43	41	**31**	30

Credit risk

There are no significant concentrations of credit risk within the Group. The Group is exposed to a small amount of credit risk that is primarily attributable to trade receivables and cash balances. The Group's objective is to minimise this risk by carrying out credit checks where appropriate. The amount of trade and other receivables included in the balance sheet are net of a bad debt provision which has been determined by management following a review of individual receivable accounts and is based on prior experience and known factors at the balance sheet date after taking into account collateral held in the form of cash deposits. Receivables are written off against the bad debt provision when management considers that the debt is no longer recoverable.

21. Trade and other receivables (Continued)

At 30 September 2018 the value of deposits held by the Group is £32 million (2017: £32 million) and by the Parent Company is £19 million (2017: £19 million). This balance is held on the balance sheet in other payables.

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

	Group		Company	
	2018	2017	2018	2017
	£m	£m	£m	£m
Provision as at 1 October	**2**	2	**2**	2
Increase in provision during the year	**2**	1	**2**	1
Provision utilised during the year	**(1)**	—	**(1)**	—
Provision released during the year	**(1)**	(1)	**(1)**	(1)
Provision as at 30 September	**2**	2	**2**	2

There are no indications as at 30 September 2018 that debtors will not meet their payment obligations in respect of the amount of trade receivables recognised in the balance sheet that are neither past due nor impaired. The maximum amount of exposure to credit risk is the carrying value of trade receivables. The Group's credit risk on liquid funds is limited because the Group only invests with banks and financial institutions with high credit ratings.

22. Trade and other payables

	Group		Company	
	2018	2017	2018	2017
	£m	£m	£m	£m
Trade payables	**46**	37	**43**	35
Amounts due to subsidiary undertakings	**—**	—	**77**	79
Accruals and deferred income	**114**	113	**85**	85
Other payables	**47**	47	**26**	29
	207	197	**231**	228

At 30 September 2018 the value of deposits held by the Group in other payables is £32 million (2017: £32 million) and by the Parent Company is £19 million (2017: £19 million).

23. Financial assets and liabilities

	Group		Company	
	2018	2017	2018	2017
	£m	£m	£m	£m
Financial assets				
Current				
Other loans receivable	**3**	—	**3**	—
	3	—	**3**	—
Non-current				
Loans due from subsidiary undertakings (see note 33)	**—**	—	**14**	9
	—	—	**14**	9
Total financial assets	**3**	—	**17**	9

23. Financial assets and liabilities (Continued)

	Group		Company	
	2018	2017	2018	2017
	£m	£m	£m	£m
Financial liabilities				
Current				
Corporate bonds	**102**	—	**100**	—
Securitised bonds	**84**	81	**—**	—
Loans due to subsidiary undertakings (see note 33)	**—**	—	**2**	—
	186	81	**102**	—
Non-current				
Bank borrowings	**12**	55	**12**	55
Corporate bonds	**1,167**	1,205	**1,167**	1,120
Securitised bonds	**824**	917	**—**	—
Finance lease payables	**3**	3	**1**	1
Loans due to subsidiary undertakings (see note 33)	**—**	—	**—**	85
	2,006	2,180	**1,180**	1,261
Total financial liabilities	**2,192**	2,261	**1,282**	1,261

'Bank borrowings' refers to the revolving credit facility (see table on page 118).

'Corporate bonds' refers to secured and unsecured bonds and an unsecured convertible bond (see table on page 118).

'Securitised bonds' refers to secured bonds (see table on page 118).

Fair values

The corporate bonds and securitised bonds were valued at fair value as at 30 September by J C Rathbone, independent valuers. The fair value of the corporate bonds and securitised bonds is measured at market price and are therefore evaluated to be level 1 in the fair value hierarchy described in note 3.

Management assessed that cash and short-term deposits, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

The fair value of the Group's bank borrowings, evaluated to be level 2 in the fair value hierarchy described in note 3, is not deemed to be materially different to the nominal value if it had been determined by using the discounted cash flow method using a discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 30 September 2018 was also assessed to be insignificant.

23. Financial assets and liabilities (Continued)

The nominal, book and fair values of financial assets and liabilities have been analysed into categories as below:

		Group					
	Interest rate	2018 Nominal value	2018 Book value	2018 Fair value	2017 Nominal value	2017 Book value	2017 Fair value
		£m	£m	£m	£m	£m	£m
Bank borrowings:							
Revolving credit facility	LIBOR + 3.0%	**15**	**12**	**15**	55	55	55
		15	**12**	**15**	55	55	55
Corporate bonds:							
Secured bond—issued 9 May 2000	6.875%	**125**	**125**	**138**	125	125	139
Secured bond—issued 15 February 2001	6.875%	**125**	**125**	**136**	125	124	139
Secured bond—issued 26 February 2002	6.375%	**275**	**273**	**307**	275	273	308
Secured bond—issued 3 March 2003	6.5%	**100**	**100**	**101**	100	100	106
Secured bond—issued 7 October 2014	6.0%	**250**	**248**	**271**	250	248	272
Secured bond—issued 4 November 2016	6.375%	**250**	**250**	**259**	250	250	271
Unsecured bond—issued 25 September 2018	7.5%	**150**	**146**	**153**	—	—	—
Unsecured convertible bond—issued 10 September 2013	3.5%	**2**	**2**	**2**	97	85	99
		1,277	**1,269**	**1,367**	1,222	1,205	1,334
Securitised bonds:							
A3—issued 30 March 1999	6.542%	**168**	**168**	**176**	227	229	247
A4—issued 20 September 2002	5.659%	**321**	**319**	**356**	347	345	394
M—issued 30 March 1999	7.395%	**225**	**229**	**250**	225	231	259
N—issued 20 September 2002	6.464%	**190**	**192**	**185**	190	193	187
		904	**908**	**967**	989	998	1,087
		2,196	**2,189**	**2,349**	2,266	2,258	2,476
Finance lease payables (see note 25)		**—**	**3**	**3**	—	3	3
Total debt		**2,196**	**2,192**	**2,352**	2,266	2,261	2,479
Cash*		**(158)**	**(158)**		(151)	(151)	
Underlying net debt / net debt (see note 32)		**2,038**	**2,034**		2,115	2,110	

* Cash balances, in the current year and in the prior year, within the Group include £65 million held within a securitised reserve account. Withdrawals can only be made from this account with the consent of the securitisation Trustee.

The nominal value of financial assets and liabilities is the principal amount.

23. Financial assets and liabilities (Continued)

The book value of financial assets and liabilities includes unamortised fees, fair value adjustments made on acquisition and excludes the value ascribed to the equity element of the convertible loan note.

		Company					
	Interest rate	2018 Nominal value	2018 Book value	2018 Fair value	2017 Nominal value	2017 Book value	2017 Fair value
		£m	£m	£m	£m	£m	£m
Bank borrowings:							
Revolving credit facility	LIBOR + 3.0%	**15**	**12**	**15**	55	55	55
		15	**12**	**15**	55	55	55
Corporate bonds:							
Secured bond—issued 9 May 2000	6.875%	**125**	**125**	**138**	125	125	139
Secured bond—issued 15 February 2001	6.875%	**125**	**125**	**136**	125	124	139
Secured bond—issued 26 February 2002	6.375%	**275**	**273**	**307**	275	273	308
Secured bond—issued 3 March 2003	6.5%	**100**	**100**	**101**	100	100	106
Secured bond—issued 7 October 2014	6.0%	**250**	**248**	**271**	250	248	272
Secured bond—issued 4 November 2016	6.375%	**250**	**250**	**259**	250	250	271
Unsecured bond—issued 25 September 2018	7.5%	**150**	**146**	**153**	—	—	—
		1,275	**1,267**	**1,365**	1,125	1,120	1,235
		1,290	**1,279**	**1,380**	1,180	1,175	1,290
Finance lease payables (see note 25)		**—**	**1**	**1**	—	1	1
Intercompany:							
Amounts owed to subsidiary undertakings		**2**	**2**	**2**	97	85	85
Total debt		**1,292**	**1,282**	**1,383**	1,277	1,261	1,376
Cash		**(18)**	**(18)**		(15)	(15)	
Underlying net debt / net debt		**1,274**	**1,264**		1,262	1,246	

The bank borrowings, corporate bonds and securitised bonds are held at amortised cost. Finance lease payables represent the present value of future minimum lease payments. Other categories of financial instruments include trade receivables and trade payables. However there is no difference between the book value and fair value of these items.

Bank borrowings

In the prior year, on 24 October 2016 a new £120 million non-amortising revolving credit facility (RCF) was agreed, which was available through to August 2020 and attracted interest at 3% above LIBOR on the drawn balance. This replaced the £138 million RCF which attracted interest at the same rate and was due to expire in September 2018. On 14 March 2017 the RCF was increased in size to £140 million on the same terms.

In the current year, on 14 August 2018 this facility was further increased to £150 million and the availability was extended to August 2022.

Additionally, in the prior year, on 19 September 2017 the Group entered into a new committed term loan bank facility of £50 million which is available for drawing until December 2018 with repayment of the amount drawn due by July 2020.

Corporate bonds

On 10 September 2013 Enterprise Funding Limited (the Issuer) issued a £97 million 3.5% guaranteed convertible bond due 2020 (the bond) at par. The Parent Company had unconditionally and irrevocably

23. Financial assets and liabilities (Continued)

guaranteed the due and punctual performance by the Issuer of all of its obligations (including payments) in respect of the bond. The obligations of the Parent Company, as guarantor, constitute direct, unsubordinated, unconditional and unsecured obligations of the Parent Company.

Subject to the terms, the bond was convertible into preference shares of the Issuer which were automatically transferred to the Parent Company in exchange for ordinary shares in the Parent Company. The bond converted at a premium of 35% to the share price on 10 September 2013 of 141.5p, which means that the bond was convertible based on an exchange share price of 191.0p into 50.8 million ordinary shares. The exchange share price would have been adjusted on the happening of certain events, including the payment of a dividend.

In accordance with the Group's accounting policy for convertible financial instruments, the proceeds received from the convertible bond issue were split, with an initial £75 million recorded as a liability and £22 million recorded within equity, stated net of costs of £2 million and £1 million respectively. The difference between the effective interest charged and the actual interest paid is added to the liability element over the life of the convertible bonds.

On 26 September 2018 the Group redeemed and cancelled £95.4 million of the convertible bonds at a purchase price of 107% of their par value. On 27 September 2018 the Group issued a notice to redeem the remaining £1.6 million of the convertible bonds. Subsequent to the year end, on 12 November 2018 the remaining bonds were redeemed at par.

In the prior year, on 4 November 2016 the Group completed a partial refinancing of the 2018 corporate bond. The partial refinancing resulted in a lower interest coupon and an extended debt maturity. Prior to the refinancing £350.5 million of 2018 secured corporate bonds were outstanding with a coupon of 6.5%. The Group received and accepted tender instructions for £250 million of these bonds at a cash purchase price of 111% of their principal amount resulting in a £28 million repurchase premium. In connection with this partial refinancing the Group issued new £250 million secured corporate bonds, due in February 2022, at a coupon of 6.375%, resulting in a reduction of the corporate bonds maturing in 2018 to £100.5 million. The new issue benefits from a security package on substantially the same terms as the 2018 bonds.

On 25 September 2018 the Group issued a £150 million unsecured corporate bond with a coupon of 7.5% maturing in 2024. Although the holders of these bonds have no security over Group properties they do benefit from a shared share pledge over Unique Pubs Limited.

Securitised bonds

During the year the Group has made scheduled repayments on the Unique A3 and A4 securitised bonds which together with £4 million of bonds purchased and cancelled, leaves £904 million outstanding at the year end. At 30 September 2018 the Group was £75 million ahead of the amortisation schedule through early repayment and market purchases.

Intercompany

The amount owed to subsidiary undertakings relates to the issue of the convertible bonds in Enterprise Funding Limited, these proceeds had been on-loaned to Ei Group plc on the same terms with an amount recorded in equity and an amount recorded as a liability. On redemption of these bonds, as explained above, the intercompany loan was also redeemed.

Financial instruments and risk

The Group's financial instruments comprise bank borrowings, corporate bonds, securitised bonds and cash. The main purpose of these financial instruments is to raise finance for the Group's operations.

23. Financial assets and liabilities (Continued)

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. There is no currency exposure as all transactions are in sterling. The Board reviews and agrees policies for managing each of these risks and they are summarised as follows:

Liquidity risk

The Group has exposure to liquidity risk, being the risk that payments cannot be made when they fall due. The Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of bank borrowings, corporate bonds and securitised bonds.

This objective is achieved through the following processes:

- regular cash flow forecasting and reporting through the treasury function;
- regular review of the Group's debt portfolio including maturities and repayment profile; and
- maintenance of undrawn bank facilities.

The proportion of nominal value of borrowings comprised:

	Group		Company	
	2018	2017	**2018**	2017
Bank borrowings	**1%**	2%	**1%**	5%
Corporate bonds	**58%**	54%	**99%**	95%
Securitised bonds	**41%**	44%	**—**	—

The maturity of the debt and interest payments is set out below:

	Group					
	2018			2017		
	Debt	**Interest**	**Total**	Debt	Interest	Total
	£m	**£m**	**£m**	£m	£m	£m
In more than five years	**1,222**	**257**	**1,479**	1,184	327	1,511
In more than two years but not more than five years	**699**	**303**	**1,002**	816	312	1,128
In more than one year but not more than two years	**89**	**128**	**217**	185	129	314
In one year or less or on demand	**186**	**139**	**325**	81	140	221
	2,196	**827**	**3,023**	2,266	908	3,174

	Company					
	2018			2017		
	Debt	**Interest**	**Total**	Debt	Interest	Total
	£m	**£m**	**£m**	£m	£m	£m
In more than five years	**800**	**156**	**956**	650	196	846
In more than two years but not more than five years	**390**	**189**	**579**	527	178	705
In more than one year but not more than two years	**—**	**77**	**77**	100	73	173
In one year or less or on demand	**102**	**83**	**185**	—	79	79
	1,292	**505**	**1,797**	1,277	526	1,803

The table above shows the contractual, undiscounted cash flows due in future periods to settle the debt and interest payments. The total amount of debt payable shown above differs from the total book value of debt of £2,192 million (2017 £2,261 million) in the Group and £1,282 million (2017: £1,261 million) in the Parent Company as the book value of debt includes unamortised fees, fair value adjustments made on acquisition and excludes the value ascribed to the equity element of the convertible loan note. The contractual maturity of trade and other payables and the share buyback commitment is within one year.

An analysis of minimum lease payments due under finance leases is set out in note 25.

23. Financial assets and liabilities (Continued)

The Group's bank borrowings, corporate bonds and securitised bonds are repayable as follows:

Bank borrowings:	
Revolving credit facility	August 2022
Term loan facility	July 2020
Corporate bonds:	
£125 million 6.875% bond	May 2025
£125 million 6.875% bond	February 2021
£275 million 6.375% bond	September 2031
£100.5 million 6.5% bond	December 2018
£249.5 million 6.0% bond	October 2023
£250 million 6.375% bond	February 2022
£150 million 7.5% bond	March 2024
£1.6 million 3.5% convertible bond	November 2018
Securitised bonds:	
A3	December 2013 — March 2021
A4	September 2013 — June 2027
M	June 2021 — March 2024
N	September 2027 — March 2032

Details of undrawn borrowing facilities available at 30 September are as follows:

	Group		Company	
	2018	2017	2018	2017
	£m	£m	£m	£m
Expiring:				
In more than five years	**100**	148	**—**	—
In more than two years but not more than five years	**183**	139	**135**	135
In more than one year but not more than two years	**54**	—	**50**	—
In one year or less or on demand	**—**	—	**—**	—
	337	287	**185**	135

	Group		Company	
	2018	2017	2018	2017
	£m	£m	£m	£m
The undrawn facilities relate to:				
Undrawn liquidity facility	**152**	152	**—**	—
Undrawn element of revolving credit facility	**135**	85	**135**	85
Undrawn term loan facility	**50**	50	**50**	50

The liquidity facility is in respect of the Unique securitisation and is a renewable committed facility of £152 million (2017: £152 million) for a term of 364 days. The liquidity facility is available to meet certain payment obligations falling due in the Unique securitisation to the extent that insufficient funds are received to meet such payments. The liquidity facility is due for renewal on 20 September 2019. The facility relates to the bonds that amortise over a period to 2032 and it reduces as the bonds amortise. Of the total facility available at 30 September 2018, £4 million expires within one to two years, £48 million expires within two to five years and £100 million expires in more than five years.

Interest rate risk

The Group borrows its corporate bonds and securitised bonds at a fixed rate. Bank borrowings and cash balances attract interest at a floating rate. The Group's objective is to manage exposure to changes in interest rates. This exposure is managed by borrowing at fixed rates on the majority of its debt. At 30 September 2018, the Group's borrowings were 99% fixed with an average interest rate of 6.4% for 6 years (2017: 98% fixed with an average interest rate of 6.3% for 6 years). The Parent Company's borrowings were 87% fixed with an average interest rate of 6.5% for 6 years (2017: 95% fixed with an average interest rate of 6.3% for 7 years).

23. Financial assets and liabilities (Continued)

Interest rate sensitivity

In estimating the sensitivity of the financial instruments we have assumed a reasonable potential change in interest rates. The method used assumes that all other variables are held constant to determine the impact on profit before tax. The analysis is for illustrative purposes only, as in practice market rates rarely change in isolation.

Actual results in the future may differ materially from these estimates due to the movements in the underlying transactions, actions taken to mitigate any potential losses, the interaction of more than one sensitivity occurring, and further developments in global financial markets. As such the below should not be considered as a projection of likely future gains and losses in these financial instruments.

If interest rates were to increase by 50 basis points the interest receivable in the Group would increase by £nil (2017: £nil) and the interest payable would increase by £nil (2017: £1 million). If interest rates were to decrease by 50 basis points the interest receivable in the Group would decrease by £nil (2017: £nil) and the interest payable would decrease by £nil (2017: £1 million).

If interest rates were to increase by 50 basis points the interest payable in the Parent Company would increase by £nil (2017: £nil). If interest rates were to decrease by 50 basis points the interest payable in the Parent Company would decrease by £nil (2017: £nil). There are no floating rate receivables in the Parent Company and therefore no exposure within interest receivable to movements in interest rates.

Security

The bank borrowings are secured by a security deed entered into by the companies which comprise the Group, excluding Enterprise Inns Holding Company Limited and its subsidiaries, Unique Pubs Limited and its subsidiaries and Enterprise Funding Limited. The lenders have a floating charge over all of the assets and undertakings of such Group companies. The floating charge ranks subsequent to the fixed charges created by the corporate bonds.

The total value of assets within the Group secured by way of a fixed or floating charge as at 30 September 2018 is property, plant and equipment £3,199 million (2017: £3,293 million), investment property £368 million (2017: £270 million) operating lease premiums £9 million (2017: £9 million) and non-current assets held for sale £13 million (2017: £25 million). The value of assets within the Parent Company secured by way of a fixed or floating charge as at 30 September 2018 is property, plant and equipment £1,634 million (2017: £1,696 million), investment property £175 million (2017: £119 million) operating lease premiums £4 million (2017: £4 million) and non-current assets held for sale £7 million (2017: £12 million).

The security pledged for the Group's debt is summarised below:

Debt instrument	Security
Bank borrowings	— 1st floating charge over the balance of properties in the Parent Company not already secured by a 1st fixed charge created by the corporate bonds. — 2nd floating charge over the properties secured by a 1st fixed charge created by the corporate bonds. — Share pledge over Unique Pubs Limited shared with holders of the £150 million unsecured bond.
Corporate bonds (excluding the unsecured convertible bond and the unsecured bond)	— 1st fixed charge over the 1,948 properties in the Parent Company valued by GVA Grimley Limited (see note 18). — 2nd floating charge over the balance of properties in the Parent Company.
Unsecured bond	— Share pledge over Unique Pubs Limited shared with the RCF bank syndicate members.
Securitised bonds	— Collectively over the whole securitisation the security incorporates a 1st fixed charge in favour of the Trustee over the Issuer's right, title, interest and benefit, present and future to all properties, cash, eligible investments and income generated by Unique Pub Properties Limited.

23. Financial assets and liabilities (Continued)

Covenants

The Group is subject to a number of financial covenants in relation to its borrowing facilities. There are three covenants that relate to the bank borrowings, which are tested quarterly. There is one leverage covenant and two asset valuation covenants. There is sufficient headroom on all three of these covenants. The covenants are unchanged under the amended and extended revolving credit facility.

There are no covenants on the term loan facility until a loan is drawn.

There are two covenants that relate to the corporate bonds (excluding the unsecured bond and the unsecured convertible bond); an asset value covenant and a net annual income covenant. At the year end there is an annual valuation of the estate and a review of the annual income for the properties secured under each of the corporate bonds. The valuation is undertaken by a firm of independent chartered surveyors. The directors certify the net annual income as part of an annual compliance exercise. In the event that property values or incomes have fallen, there may be a requirement to add more properties to the security of the corporate bonds and any addition of new properties must be completed within 90 days of the year end. There is sufficient headroom on both of these covenants. There are no new covenants under the new unsecured bond.

There are two covenants that relate to the securitised bonds which are tested at each quarter end. These covenants are based solely on the assets held within the securitised bonds and comprise a net asset covenant and a debt service cover covenant. There is sufficient headroom in both of these covenants.

The Group tests all of the above covenants on a regular basis and forecasts are prepared during the budgeting process. These are reviewed at Board level.

Change of control

All of the agreements in relation to bank borrowings and corporate bonds to which the Group is party, contain provisions that allow the counterparties to terminate funding in certain circumstances where there has been a change of control of the Parent Company. These are detailed below:

Agreement	Summary of change of control clause
Revolving credit facility agreement dated 24 October 2016 (amended 14 August 2018)	If any person or group of persons acting in concert gains control of the Company then the Company shall promptly notify the agents and lenders. If any lender so requires, it may cancel its commitments to the Company and require the Company to repay all loans outstanding to it.
Term loan facility dated 19 September 2017	If any person or group of persons acting in concert gains control of the Company then the Company shall promptly notify the agent. A lender shall not be obliged to fund a loan and may cancel its commitment to the Company and require the Company to repay all loans outstanding to it.
£125 million 6.875% secured bonds due 2025 £125 million 6.875% secured bonds due 2021 £275 million 6.375% secured bonds due 2031 £100.5 million 6.5% secured bonds due 2018 £249.5 million 6.0% secured bonds due 2023 £250 million 6.375% secured bonds due 2022	The terms and conditions of each of the secured bonds provide that following the occurrence of a restructuring event, which is defined in the terms and conditions to include: (i) any person or persons acting in concert becoming interested in more than 50% of the shares of the Company; or (ii) any person or group of connected persons acquiring control of the Company; or

23. Financial assets and liabilities (Continued)

Agreement	Summary of change of control clause
	(iii) any person or persons acquiring the right to appoint more than 50% of the directors of the Company, the secured bonds must: (a) if they are not rated, after a written resolution of the bondholders, either be redeemed by the Company or the Company must successfully seek an investment grade rating for the secured bonds; or (b) if they are rated and such rating is below investment grade or later falls below investment grade, be redeemed by the Company.
£150 million 7.5% bonds due 2024	If any person or persons, acting together, acquire(s) or becomes entitled to control more than 50% of the votes that may ordinarily be cast on a poll at a general meeting of the Parent Company, the Issuer must make an offer to repurchase the bonds in cash at 101% of the principal amount together with any accrued and unpaid interest up to (but excluding) such date.
Unsecured convertible bond due 2018	If any person or persons, acting together, acquire(s) or becomes entitled to control more than 50% of the votes that may ordinarily be cast on a poll at a general meeting of the Parent Company, the holder of each bond will have the right to require the Issuer to redeem that bond on the change of control put date at its principal amount, together with accrued and unpaid interest up to (but excluding) such date.

24. Capital disclosures and analysis of changes in net debt

The capital structure is managed to support the Group's objective of maximising long-term shareholder value through ready access to debt and capital markets, cost effective borrowing and flexibility to fund business and acquisition opportunities whilst maintaining appropriate leverage to optimise the cost of capital.

The capital structure of the Group is based upon management's judgement of the appropriate balancing of all key elements of its financial strategy in order to meet the Group's operational and strategic requirements. This includes a strategy on dividends, share buybacks and monitoring liquidity risk. The overall financing strategy of the Group is presented to the Board annually as part of the budgeting exercise.

25. Leases

The Group and the Parent Company as lessee

The Group and the Parent Company lease a proportion of their licensed estate from landlords under finance leases and operating leases. These leases have varying terms, escalation clauses and renewal rights.

25. Leases (Continued)

Finance leases

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Future minimum lease payments due under finance leases:				
In less than one year	**—**	—	**—**	—
After one year but not more than five years	**2**	2	**1**	1
In more than five years	**19**	21	**8**	9
	21	23	**9**	10
Future finance lease interest	**(18)**	(20)	**(8)**	(9)
Present value of future minimum lease payments	**3**	3	**1**	1

The present value of future minimum lease payments is due in more than five years (2017: more than five years).

Properties that are leased from landlords under finance leases are let to tenants. Future minimum rentals receivable in the Group, from non-cancellable sub-leases on the above properties are £46 million (2017: £59 million). Future minimum rentals receivable in the Parent Company, from non-cancellable sub-leases on the above properties are £17 million (2017: £30 million).

Operating leases

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Operating lease rentals recognised as an expense in the year	**21**	21	**20**	20

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Future minimum lease payments due under operating leases:				
Within one year	**21**	21	**20**	19
After one year but not more than five years	**81**	84	**78**	77
In more than five years	**271**	291	**248**	258
	373	396	**346**	354

Properties that are leased from landlords under operating leases are let to tenants. Future minimum rentals receivable in the Group, from non-cancellable sub-leases on the above properties are £98 million (2017: £110 million). Future minimum rentals receivable in the Parent Company, from non-cancellable sub-leases on the above properties are £137 million (2017: £135 million).

The Group and Parent Company as lessor

The Group and the Parent Company lease their properties to tenants. The majority of lease agreements have terms of between one and 30 years and all are classified for accounting purposes as operating leases. Most of the leases with terms of over three years include RPI or CPI based rent adjustments and provision for rent reviews on either a three or five year basis.

25. Leases (Continued)

The present value of future minimum lease rentals receivable under non-cancellable operating leases are as follows:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	£m	**£m**	**£m**	**£m**
Future minimum lease rentals receivable under operating leases:				
Within one year	**130**	135	**84**	78
After one year but not more than five years	**383**	414	**246**	259
In more than five years	**498**	542	**286**	300
	1,011	1,091	**616**	637

Leases with future minimum lease rentals receivable under operating leases in more than five years within the Group have an average term of 13 years (2017: 15 years) remaining on their agreements and within the Parent Company have an average term of 14 years (2017: 14 years) remaining on their agreements.

26. Provisions

	Group		Company	
	2018	**2017**	**2018**	**2017**
	£m	**£m**	**£m**	**£m**
At 1 October:				
Current	**1**	—	**1**	—
Non-current	**4**	4	**3**	4
	5	4	**4**	4
Movement during the year:				
Increase in provision during the year	**3**	2	**2**	1
Release of provision during the year	**(2)**	(1)	**(1)**	(1)
	1	1	**1**	—
At 30 September:				
Current	**1**	1	**1**	1
Non-current	**5**	4	**4**	3
	6	5	**5**	4

The provision in both the Group and Parent Company relates to future commitments under onerous lease agreements. The provision is expected to be utilised over the life of leases involved or as the properties are disposed of. The remaining lease terms vary from 0 to 54 years.

27. Deferred tax

The deferred tax in the balance sheet relates to the following:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	£m	**£m**	**£m**	**£m**
Unrealised surplus on revaluation of fixed assets and rolled over gains	**134**	136	**48**	50
Accelerated capital allowances	**44**	45	**29**	30
Share-based payments	**(1)**	(1)	**(1)**	(1)
Temporary differences	**(3)**	(4)	**—**	(1)
	174	176	**76**	78

The UK Government reduced the rate of corporation tax from 20% to 17% effective by 1 April 2020. Deferred taxation has been calculated based on the current substantively enacted rate of 17%. No further changes in the UK tax rate are anticipated.

27. Deferred tax (Continued)

The deferred tax provision for the unrealised surplus on the revaluation of fixed assets in the Group has moved during the year as follows:

	£m
Opening provision at 1 October 2017	**136**
Reduction in deferred tax liability due to indexation credited to the income statement	**(2)**
Reduction in deferred tax liability due to movements from revaluation of the estate and disposals recognised in the income statement	**—**
Reduction in deferred tax liability recognised in other comprehensive income	**—**
Closing provision at 30 September 2018	**134**

The Group has not provided deferred tax in relation to temporary differences associated with undistributed earnings of subsidiaries on the basis that under current enacted law, no tax is payable on dividends payable and receivable within the Group.

28. Pension

The Group and the Parent Company make defined contribution payments to employees' own pension plans and these payments are charged to the income statement as incurred.

RetailLink Management Limited (a subsidiary company that has now been liquidated as part of a Group reorganisation) established a pension plan for its employees in January 1999. The plan has a defined contribution and defined benefit scheme. The plan is now closed to new members and for the future accrual of benefits.

The plan is governed by the employment laws of the United Kingdom which require final salary payments to be adjusted for the consumer price index upon payment during retirement. The level of benefits provided depends on a member's length of service and salary at retirement age. The fund has a legal form of foundation and is governed by the Board of Pension Trustees. The Board of Trustees is responsible for the administration of the plan assets and for the definition of the investment strategy.

In April 2014, the Trustees of the RetailLink Management Limited pension plan (the Plan) and the Company committed to a bulk annuity buy out of the defined benefit section of the Plan, crystallising a liability of £10 million payable through a deferred payment schedule over a four year period. The initial stage of this process involved the Trustees using the Plan's defined benefit section assets to purchase a bulk annuity policy from Legal & General Assurance Society Limited (LGAS). The policies commenced with effect from 30 April 2014 and are being held as investments of the Plan. Once the deferred premiums have been paid, the Trustees intend to ask LGAS to issue individual annuity policies to defined benefit section members and then wind-up the Plan, after which the Company will no longer retain any responsibilities or obligations to the members of the Plan. The deferred payment plan attracts interest at a rate of LIBOR plus 2.5%.

28. Pension (Continued)

In view of the relative insignificance of the pension scheme, both on a gross and net basis, the Group has elected to only present summarised disclosures to one decimal place in respect of the scheme.

	2018	2017
	£m	£m
Assets and liabilities of the plan		
Fair value of plan assets:		
Cash	**0.1**	0.1
Assets held by insurance companies	**33.7**	34.7
	33.8	34.8
Present value of plan liabilities	**(33.8)**	(34.8)
Provision for settlement	**(0.8)**	(2.4)
Net pension deficit	**(0.8)**	(2.4)

	2018	2017
	£m	£m
Recognised in the balance sheet as:		
Current liabilities	**(0.8)**	(2.4)

	2018	2017
	£m	£m
Movement in deficit during the year		
Net deficit at the start of the year	**(2.4)**	(4.7)
Deferred premium paid	**1.6**	2.3
Net pension deficit at the end of the year	**(0.8)**	(2.4)

Following the decision by the Trustees to wind-up the plan in July 2018, and communication of this intention to the members, a constructive obligation has arisen in the year in order to secure final settlement. An amount of £0.8 million has been included within the net pension deficit, being the estimated costs required in respect of final settlement.

	2018	2017
	%	%
The principal assumptions made by the actuaries were:		
Rate of increase in pension payments	**3.60**	3.60
Rate of increase of pensions in deferment	**2.20**	2.20
Discount rate	**2.95**	2.70
Inflation assumption	**3.20**	3.20
Longevity at age 65 for current pensioners		
Men	23 years	23 years
Women	25 years	25 years
Longevity at age 65 for future pensioners		
Men	25 years	25 years
Women	27 years	27 years

The mortality tables used to value the plan's liabilities are S2PA light tables adjusted for CMI improvements subject to a minimum annual long-term improvement of 1.25% p.a. for current pensioners and for future retirees (with a -1 year age adjustment for females). These tables give a life expectancy as set out above.

Due to the nature of the pension deficit being the deferred payment plan outstanding for the bulk annuity policy, sensitivity analysis is not relevant and has therefore not been disclosed.

The Company will not be making any contributions to the defined benefit plan in future years following the bulk annuity buy out.

29. Share capital

Authorised:

	2018		2017	
	No.	£m	No.	£m
Ordinary shares of 2.5p each	**1,000,000,000**	**25**	1,000,000,000	25

Allotted, called up and fully paid:

	2018		2017	
	No.	£m	No.	£m
Ordinary shares of 2.5p each	**516,793,318**	**13**	531,919,858	13

Ordinary shares carry no right to fixed income. Holders of ordinary shares are entitled to vote at meetings.

At 30 September 2018, the Group owned 50 million of its own shares as treasury shares with a nominal value of £1 million and a market value of £83 million (2017: 50 million shares, nominal value £1 million, market value £69 million). In addition, at 30 September 2018 the Group held 1,134,828 shares with a nominal value of £0.03 million and a market value of £2 million (2017: 1,869,815 shares, nominal value £0.05 million, market value £3 million). These shares are held by the Employee Benefit Trust and are shares used to satisfy awards made under the Company incentive plans and other share option schemes (note 30).

During the year the Group made on market purchases in respect of 15 million (2017: 13 million) of its own ordinary shares for an aggregate consideration of £20 million (2017: £15 million) (excluding costs) as part of its share buyback plan. These shares were cancelled. Transaction costs of £0.1 million (2017: £0.1 million) have been accounted for directly in equity in the profit and loss reserve.

30. Share-based payments

The Group operates share-based payment schemes for both directors and other employees. Details of the Deferred Share Award and Long-Term Incentive Plan (LTIP) which form part of the remuneration of the executive directors are given in the directors' remuneration report on pages 58 to 82.

The Group also operates a Share Incentive Plan (SIP), an Employee Share Option Scheme (ESOS), and a Save As You Earn Scheme (SAYE).

A total expense of £2 million (2017: £3 million) has been incurred in the year in relation to share-based payments. This expense relates wholly to the equity-settled schemes described above.

Share Incentive Plan

The SIP is open to all Parent Company and Bermondsey Pub Company employees. At times determined by the Parent Company, employees may allocate the lower of £1,800 or 10% of pre-tax salary to purchase shares out of their salary. The Board may also decide to award matching shares. The shares are held in trust on behalf of the employee. If shares are removed from trust within three years, any allocation of matching shares may be lost. Shares can be transferred tax-free to employees after a period of five years. Matching shares were awarded every year from 2005 to 2018.

The cost of the matching shares is being spread over the three year vesting period of the scheme.

Details of the number of matching shares held in trust during the year are as follows:

	2018 Number of shares	2017 Number of shares
Outstanding at beginning of year	**367,587**	478,446
Granted	**129,358**	161,928
Vested	**(135,283)**	(258,735)
Forfeited	**(12,104)**	(14,052)
Outstanding at end of year	**349,558**	367,587
Weighted average remaining contractual life	**1.2 years**	1.3 years

30. Share-based payments (Continued)

Employee Share Option Scheme

The ESOS is open to all employees. Share options are awarded to employees at the discretion of the Board. Options will normally vest after three years if an employee remains in service and if EPS targets are met. There were no options granted during the current or prior year. Options may normally only be exercised during the period of seven years commencing on the third anniversary of the date of grant of the option. Options will usually be settled using ordinary shares held by the Employee Benefit Trust.

Details of the share options outstanding during the year are as follows:

	2018		2017	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
		£		£
Outstanding at beginning of year	**240,622**	**0.37**	312,497	0.37
Exercised	**(69,925)**	**0.37**	(71,875)	0.37
Forfeited	**(23,572)**	**0.37**	—	—
Outstanding at end of year	**147,125**	**0.37**	240,622	0.37
Weighted average remaining contractual life	**3.2 years**		4.2 years	

Options outstanding at 30 September 2018 comprise the following:

	Number of share options	Exercise price
		£
Exercise date		
Exercisable:		
12/12/14-12/12/21	147,125	0.37

SAYE scheme

The SAYE scheme is open to executive directors and employees at the discretion of the Board. Participants contract to save a fixed amount each month with a savings institution for a period of five years (previously a seven year scheme has also been offered). At the end of the savings term, participants are given the option to purchase shares at a price set before the savings began. The option price will be not less than 80% of the market value of a share on the date that participants are invited to take part in the scheme, or the nominal value of a share, if higher. Options will usually be settled using ordinary shares held by the Employee Benefit Trust and will usually be exercisable for six months after the fifth or seventh anniversary of the commencement of the savings contract.

Details of the share options outstanding during the year are as follows:

	2018		2017	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
		£		£
Outstanding at beginning of year	**3,327,008**	**0.80**	5,908,494	0.49
Granted	**494,201**	**1.16**	1,243,831	0.83
Exercised	**(475,069)**	**0.63**	(3,305,470)	0.25
Forfeited	**(332,407)**	**0.86**	(519,847)	0.87
Outstanding at end of year	**3,013,733**	**0.88**	3,327,008	0.80
Weighted average remaining contractual life		**3.0 years**		1.8 years

30. Share-based payments (Continued)

Options outstanding at 30 September 2018 comprise the following:

	Number of share options	Exercise price
		£
Exercise date		
01/02/19-31/07/19	190,907	0.24
01/02/19-31/07/19	127,318	1.21
01/02/20-31/07/20	763,108	0.87
01/02/21-31/07/21	547,457	0.86
01/02/22-31/07/22	907,261	0.83
01/02/23-31/07/23	477,682	1.16
	3,013,733	

The weighted average fair value of options granted during the year under the SAYE scheme was £0.49 (2017: £0.64).

Deferred Share Award and LTIP

Executive directors and other members of the senior management team are eligible to participate in a Deferred Share Award and an LTIP plan. A summary of the rules of these schemes along with details of shares that have been granted to the Executive directors and are outstanding in relation to them is included in the directors' remuneration report on pages 58 to 82.

Shares awarded vest over between one and three years from fulfilment of performance targets.

Details of the total number of share options outstanding during the year are as follows:

	2018		2017	
	LTIP Number of share options	Deferred Share Award Number of share options	LTIP Number of share options	Deferred Share Award Number of share options
Outstanding at beginning of year	**5,534,552**	**3,583,015**	5,558,974	4,326,130
Granted	**2,096,397**	**811,128**	2,096,397	1,260,335
Exercised	**(40,366)**	**(974,363)**	(1,293,456)	(1,514,299)
Lapsed	**(2,232,361)**	**—**	(746,475)	—
Forfeited	**(156,291)**	**(508,125)**	(80,888)	(489,151)
Outstanding at end of year	**5,201,931**	**2,911,655**	5,534,552	3,583,015
Weighted average remaining contractual life	**2.8 years**	**2.2 years**	2.7 years	2.4 years

The share price at which the number of shares granted under the Deferred Share Award scheme is calculated, is not confirmed until after the date of the approval of the accounts. The maximum number of Deferred Share Award shares granted during the year is therefore estimated using the closing share price on 30 September 2018. The number of shares granted in 2017 has been amended to show the actual number granted in 2017.

Where the conditions are not met the shares are released in the forfeited/released line.

Directors and other members of the management team eligible to participate in the Deferred Share Award pay £1 to exercise awards granted under the Deferred Share Award and the LTIP. This is a one-off charge. All of the shares outstanding at 30 September 2018 are not yet exercisable.

The weighted average fair value of shares granted during the year under the Deferred Share Award was £1.66 (2017: £1.38 restated for actual number of shares granted in 2017) and under the LTIP was £1.00 (2017: £1.09).

The weighted average share price on exercise of shares and share options under all schemes during the year was £1.41 (2017: £1.20).

30. Share-based payments (Continued)

Fair value of share schemes

The fair value of equity-settled share options and share awards granted is estimated at the date of grant using share option valuation models. The SAYE and Deferred Share Award schemes are valued using the Black-Scholes model. The element of the LTIP scheme that relates to non-market conditions is valued using the Black-Scholes model. The element of the LTIP that includes market conditions is valued using the Monte-Carlo Simulation Model.

The following tables list the inputs to the models for options and shares granted during the year:

	SAYE		Deferred Share Award		LTIP	
Weighted average:	**2018**	**2017**	**2018**	**2017***	**2018**	**2017**
Share price (£)	**1.37**	1.30	**1.66**	1.38	**1.31**	1.39
Exercise price (£)	**1.16**	0.83	**0.00**	0.00	**0.00**	0.00
Dividend yield	**0.00%**	0.00%	**0.00%**	0.00%	**0.00%**	0.00%
Expected volatility	**32%**	37%	**33–34%**	34–36%	**33–35%**	34–36%
Risk-free interest rate	**0.75%**	0.75%	**0.19–0.33%**	0.11–0.45%	**0.33–0.45%**	0.24–0.56%
Expected life of option (years)	**5**	5	**2–4†**	2–4†	**3–5^**	3–5^

* The share price at which the number of shares granted under the Deferred Share Award scheme is calculated is not confirmed until after the date of the approval of the accounts. The maximum number of Deferred Share Award shares granted during the year is therefore estimated using the closing share price on 30 September 2018. The 2017 weighted averages have been amended to reflect the actual number of shares granted in 2018.

† The Deferred Share Award for the executive directors vests in four years (2017: four years), the Deferred Share Award for the executive management vests in two equal tranches after two and three years (2017: two and three years) and the Deferred Share Award for the other members of the senior team vests after four years (2017: four years).

^ The LTIP vests in three equal tranches after three, four and five years.

Expected share-price volatility is based on historic volatility over the same period of time as the vesting period of the option. For the LTIP the expected life of an option is based on historical data.

The LTIP will only vest in full if a TSR target is met. This is a market condition and the TSR performance criteria has therefore been taken into account when calculating the fair value of the options granted under the LTIP. These conditions have been incorporated into the Monte-Carlo Simulation model which is used to fair value the TSR element of the scheme.

31. Reserves

Share premium account

This reserve represents the amount of proceeds received for shares in excess of their nominal value of 2.5 pence per share.

Revaluation reserve

This reserve shows the surplus generated on revaluation of the estate. It represents the amount by which the fair value of the estate exceeds its historic cost net of related tax.

Capital redemption reserve

This reserve arose on the repurchase and cancellation of own shares in 1995/96, 2005/06, 2006/07, 2007/08, 2015/16, 2016/17 and 2017/18.

Merger reserve

This reserve arose as a consequence of the acquisition of Century Inns plc in 1998/99.

Treasury share reserve

This reserve shows the cost of own shares purchased by the Parent Company and held as treasury shares. These shares can be cancelled or re-issued.

31. Reserves (Continued)

Other reserve

In the Group this comprises the cost of shares in the Parent Company that are held by the Employee Benefit Trust and the equity component of the convertible bond. The shares in the Employee Benefit Trust are used to satisfy awards made under share incentive plans (note 30)

In the Parent Company this comprises the cost of shares in the Company that are held by the Employee Benefit Trust and the equity component of the on-loan of the funds raised in Enterprise Funding Limited through the convertible bond. This reserve also includes the increase in fair value of subsidiaries recorded at fair value under IAS 27 and the dividends received from Enterprise Pubs Five Limited that cannot be distributed outside the Group.

In the year ended 30 September 2018 £29 million has been reclassified from other reserves to the profit and loss account in the Parent Company following an impairment to the carrying value of investments.

32. Additional cash flow information

a) Reconciliation of net cash flow to movement in net debt

	2018	2017
	£m	£m
Increase in cash in the year	**7**	6
Cash outflow from change in debt	**71**	77
Debt restructuring costs paid in the year	**7**	3
Change in net debt resulting from cash flows	**85**	86
Debt restructuring costs not paid in the year	**2**	—
Amortisation of issue costs and discounts/premiums on long-term loans	**(4)**	(4)
Loss on purchase of own debt	**(1)**	—
Amortisation of the fair value adjustments of securitised bonds	**4**	4
Convertible loan note effective interest	**(3)**	(3)
Movement in other reserve arising on convertible bond issue	**(7)**	—
Movement in commitment for share buybacks	**—**	5
Movement in net debt in the year	**76**	88
Net debt at start of year	**(2,110)**	(2,198)
Net debt at end of year	**(2,034)**	(2,110)

32. Additional cash flow information (Continued)

b) Analysis of net debt

	2018	2017
	£m	£m
Bank borrowings	**(15)**	(55)
Corporate bonds	**(1,277)**	(1,222)
Securitised bonds	**(904)**	(989)
Gross debt	**(2,196)**	(2,266)
Cash	**158**	151
Underlying net debt (note 23)	**(2,038)**	(2,115)
Capitalised debt issue costs	**20**	15
Fair value adjustments on acquisition of bonds	**(13)**	(17)
Convertible loan note effective interest	**—**	(11)
Convertible bond reserve	**—**	21
Finance lease payables	**(3)**	(3)
Net debt (note 23)	**(2,034)**	(2,110)
Balance sheet:		
Current financial liabilities	**(186)**	(81)
Non-current financial liabilities	**(2,006)**	(2,180)
Cash	**158**	151
Net debt	**(2,034)**	(2,110)

Underlying net debt represents amounts repayable to banks and other lenders net of cash retained in the business. Cash includes £121 million held in the securitised Unique sub-group, of which £65 million is held in a securitised reserve account.

33. Related party transactions

Compensation of key management personnel

	2018	2017
	£000	£000
Short-term employee benefits	**2,192**	2,252
Post-employment benefits	**223**	218
Share-based payments	**903**	854
	3,318	3,324

Key management personnel comprises both executive and non-executive directors.

Short-term employee benefits comprise fees, salaries, benefits and performance related bonus as reported in the directors' remuneration report. Post-employment benefits comprise payments made to the directors' own personal pension by way of salary supplements in lieu of contributions. Share-based payments comprise the fair value of Deferred Share Award and LTIP share awards charged in the year. Further information about the remuneration of individual directors is available in the directors' remuneration report on pages 58 to 82.

33. Related party transactions (Continued)

Subsidiaries

The Parent Company's subsidiaries are listed in the following table.

	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
Directly held by Ei Group plc:				
Enterprise Funding Limited	Jersey	Ordinary shares	100%	Financing company
Enterprise Managed Investments Limited	England	Ordinary shares	100%	Investment holding company
Enterprise Inns Holding Company Limited	England	Ordinary shares	100%	Investment holding company
Unique Pubs Limited	England	Ordinary shares	100%	Investment holding company
Ei Publican Services Limited (formerly Enterprise Commercial Properties Services Limited)	England	Ordinary shares	100%	Intermediate supply company
Century Inns Limited	England	Ordinary shares	100%	Dormant
Gibbs Mew Limited	England	Ordinary shares	100%	Dormant
Indirectly held by Ei Group plc:				
Unique Pub Properties Limited	England	Ordinary shares	100%	Ownership of licensed properties
Bermondsey Pub Company Limited	England	Ordinary shares	100%	Management of public houses
Bestplace Limited	England	Ordinary shares	51%	Management of public houses
Dirty Liquor Alpha Limited	England	Ordinary shares	51%	Management of public houses
Dirty Liquor Limited	England	Ordinary shares	75%	Management of public houses
Frontier Pubs Limited	England	Ordinary shares	75%	Management of public houses
Hippo Inns Limited	England	Ordinary shares	75%	Management of public houses
Hush Heath Inns Limited	England	Ordinary shares	51%	Management of public houses
Marmalade Pubs Limited	England	Ordinary shares	75%	Management of public houses
Mash Inns Limited	England	Ordinary shares	51%	Management of public houses
Ocean Pubs Limited	England	Ordinary shares	51%	Management of public houses
Old Spot Pub Company Limited	England	Ordinary shares	75%	Management of public houses
Six Cheers Limited	England	Ordinary shares	51%	Management of public houses
The Craft Union Pub Company Limited	England	Ordinary shares	100%	Management of public houses
The Unique Pub Finance Company PLC	England	Ordinary shares	100%	Financing company
		Cumulative preference shares	100%	
Bestplace (Beta) Limited	England	Ordinary shares	75%	Non–trading
Social Cellar Limited	England	Ordinary shares	100%	Non–trading
Vixen Pub Company Limited	England	Ordinary shares	75%	Non–trading
Unique Pub Investments Limited	England	Ordinary shares	100%	Investment holding company
Voyager Pub Group Holdings Limited	England	Ordinary shares	100%	Investment holding company
Voyager Pub Group Limited	England	Ordinary shares	100%	Investment holding company

33. Related party transactions (Continued)

	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
Bede Holding Company Limited	England	Ordinary shares	100%	Dormant
Imagegold Limited	England	Ordinary shares	100%	Dormant
Unique Pub Properties Alpha Limited	England	Ordinary shares	100%	Dormant
Unique Pub Properties Beta Limited	England	Ordinary shares	100%	Dormant
Unique Pub Properties Gamma Limited	England	Ordinary shares	100%	Dormant
Unique Pub Properties Theta Limited	England	Ordinary shares	100%	Dormant
West Midlands Taverns Limited	England	Ordinary shares	100%	Dormant

The registered office of all the Group's subsidiary undertakings is 3 Monkspath Hall Road, Solihull, B90 4SJ with the exception of Enterprise Funding Limited which is registered at 22 Grenville Street, St Helier, JE4 8PX, Channel Islands.

Non-controlling interests in the net assets of Bestplace Limited, Bestplace (Beta) Limited, Dirty Liquor Alpha Limited, Dirty Liquor Limited, Frontier Pubs Limited, Hippo Inns Limited, Hush Heath Inns Limited, Marmalade Pubs Limited, Mash Inns Limited, Ocean Pubs Limited, Old Spot Pub Company Limited, Six Cheers Limited and Vixen Pub Company Limited total £1 million at 30 September 2018 (2017: £1 million).

Parent Company transactions with subsidiary undertakings

The Parent Company enters into loans with its subsidiary undertakings which attract interest at varying levels. Net interest on these loans was £7 million (2017: £7 million).

The following loans were outstanding at the year end:

	2018 £m	2017 £m
Loans due from subsidiary undertakings	**14**	9
Loans due to subsidiary undertakings	**(2)**	(85)
	12	(76)

The Parent Company entered into other trading transactions with its subsidiary undertakings which included revenue of £70 million (2017: £47 million) from an Asset Management Fee, drink revenue and rent revenue and costs of £68 million (2017: £72 million) from a Procurement Fee. During the year the Parent Company purchased property, plant and equipment at book value for consideration of £9 million (2017: £14 million) from subsidiary undertakings and sold property, plant and equipment at book value for consideration of £4 million (2017: £20 million) to subsidiary undertakings.

Dividends of £14 million (2017: £14 million) were received in the Parent Company from its subsidiary undertakings.

The following balances were outstanding at the year end:

	2018 £m	2017 £m
Amounts due from subsidiary undertakings	**647**	622
Amounts due to subsidiary undertakings	**(77)**	(79)
	570	543

33. Related party transactions (Continued)

Amounts due to the Parent Company from subsidiary undertakings have been reviewed for impairment at the balance sheet date. No impairments have been recorded in the current or prior year.

34. Post balance sheet events

On 19 November 2018 the Group announced a £20 million share buyback programme.

35. Alternative performance measures

Like-for-like Publican Partnerships net income

Publican Partnerships like-for-like net income of £303 million (2017: £299 million) represents underlying EBITDA for the Publican Partnerships business of £307 million (2017: £325 million) excluding £2 million (2017: £8 million) of income in respect of disposals and £2 million of net income (2017: £18 million) relating to other non-like-for-like net income.

Like-for-like Commercial Properties net income

Commercial Properties like-for-like net income of £15 million (2017: £15 million) represents underlying EBITDA for the Commercial Properties business of £27 million (2017: £21 million) excluding £nil (2017: £1 million) of income in respect of disposals and £12 million of net income (2017: £5 million) relating to other non-like-for-like net income.

Managed like-for-like sales

Managed like-for-like sales represents revenue from the Managed estate of £152 million (2017: £80 million) excluding Machine sales of £5 million (2017: £2 million) and underlying revenue from those pubs that have not traded for two full years post investment in their managed format of £101 million (2017: £35 million).

Average net income per pub

Average net income per pub represents the annual net income for Publican Partnerships assets trading at 30 September 2018 of £303 million (2017: £322 million) divided by the total Publican Partnerships assets trading at 30 September 2018 of 3,718 properties (2017: 4,051 properties).

Publican Partnerships net income of £303 million (2017: £322 million) represents underlying EBITDA for the Publican Partnerships business of £307 million (2017: £325 million) excluding £2 million (2017: £2 million) of income in respect of disposals and £2 million of net income (2017: £1 million) relating to other non-like-for-like net income.

Average net income per property

Average net income per property represents the annual net income for Commercial Properties assets trading at 30 September 2018 of £30 million (2017: £22 million) divided by the total Commercial Properties assets trading at 30 September 2018 of 412 properties (2017: 331 properties).

Commercial Properties net income of £30 million (2017: £22 million) represents underlying EBITDA for the Commercial Properties business of £27 million (2017: £21 million) excluding £nil (2017: £1 million) of income in respect of disposals and including £3 million of net income (2017: £2 million) relating to the pubs before they were transferred to the Commercial Properties segment offset by unlicensed property income.

Excess cash flow

Excess cash flow in the period was £27 million (2017: £55 million) and is derived from net cash flows from operating activities of £271 million (2017: £261 million) less net cash flows from investing activities of £15 million (2017: inflow of £20 million) less net interest paid of £143 million (2017: £149 million) less scheduled debt amortisation and open market debt purchases of £86 million (2017: £77 million).

35. Alternative performance measures (Continued)

Managed annualised site EBITDA

Managed operations annualised average site EBITDA represents annualised EBITDA of sites that have traded post investment for more than six months of £24 million (2017: £10 million) divided by the total number of sites that have traded post investment for more than six months being 232 sites (2017: 109 sites).

Managed investments annualised average site EBITDA represents annualised EBITDA of sites that have traded post investment for more than six months of £6 million (2017: £3 million) divided by the total number of sites that have traded post investment for more than six months being 27 sites (2017: 13 sites).

The total annualised EBITDA for sites that have traded for more than six months referred to above of £30 million (2017: £13 million) represents underlying EBITDA for the Managed business of £28 million (2017: £13 million) excluding costs not allocated at site level of £4 million (2017: £1 million), excluding EBITDA of pubs that have not traded for more than six months post investment of £4 million (2017: £2 million) and including an adjustment of £2 million (2017: £1 million) to annualise the EBITDA of pubs that have traded post investment for more than six months but less than the full year.

EBITDA

EBITDA represents earnings before finance costs, taxation, depreciation and amortisation.

Underlying EBITDA

Underlying EBITDA represents earnings before finance costs, taxation, depreciation and amortisation excluding non-underlying items. Non-underlying items that are excluded from underlying EBITDA include reorganisation costs and assignment premiums paid to a publican in order to take the assignment of a lease or to break a lease at any point other than at renewal during the period of our strategic review.

Underlying profit before tax

Underlying profit before tax excludes non-underlying items. Non-underlying items excluded from profit before tax include reorganisation costs, assignment premiums paid to a publican in order to take the assignment of a lease or to break a lease at any point other than at renewal during the period of our strategic review, the profit/loss on sale of property, the movement in valuation of the estate and related assets and costs incurred in respect of refinancing.

Underlying earnings per share (EPS)

Underlying EPS is based on profits after tax excluding non-underlying items as explained above.

Growth driving capital investment

Growth driving capital investment is discretionary capital cash spend on the Group's assets which is intended to generate incremental income at returns ahead of our target return on investment.

Maintenance and letting capital investment

Maintenance and letting capital investment is all capital cash spend that is not growth driving capital investment, typically focused on maintaining the quality of our assets and supporting the letting programme.

Return on investment

Return on investment is measured as the incremental income delivered as a result of the investment divided by the value of the capital investment.

Unplanned business failures

Unplanned business failures are all lease and tenancy agreements that do not reach their full term, where failure is not through the mutual agreement of ourselves and the departing publican. For example, through publican abandonment or via legal proceedings.

Financial Statements as of and

for the year ended 30 September 2017

Contents

Statement of directors' responsibilities in relation to the Group and Company financial statements

The directors are responsible for preparing the Annual Report, the directors' remuneration report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Company financial statements in accordance with IFRSs as adopted by the EU. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for preparing the directors' report (including the corporate governance report), directors' remuneration report in accordance with the Companies Act 2006 and applicable regulations, including the Listing Rules and the Disclosure and Transparency Rules.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are disclosed on pages 40 and 41, confirms that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and result of the Group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

The directors are responsible for preparing the annual report in accordance with applicable law and regulations. Having taken advice from the Audit Committee, the Board considers the report and accounts, taken as a whole, to be fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

On behalf of the Board

W S Townsend
Chief Executive Officer

20 November 2017

N R Smith
Chief Financial Officer

20 November 2017

Independent auditor's report
to the members of Ei Group plc

Opinion

In our opinion:

- Ei Group plc's Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 September 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Ei Group plc which comprise:

Group	Parent Company
Group balance sheet as at 30 September 2017	Company balance sheet as at 30 September 2017
Group income statement for the year then ended	Company statement of changes in equity for the year then ended
Group statement of comprehensive income for the year then ended	Company cash flow for the year then ended
Group statement of changes in equity for the year then ended	Related notes 1 to 35 to the financial statements including a summary of significant accounting policies
Group cash flow statement for the year then ended	
Related notes 1 to 35 to the financial statements, including a summary	

of significant accounting policies

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Overview of our audit approach

Key audit matters	• Property valuation • Goodwill impairment • Deferred taxation • Company investment impairment
Audit scope	• We performed an audit of the complete financial information of four (2016: four) full scope components, performed specific scope procedures in respect of three components (2016: seven) and performed specified procedures in respect of 17 components (2016: eight).

	• The components where we performed full audit procedures accounted for 91% of underlying profit before tax, 88% of revenue and 99% of total assets. • The components subject to specific scope procedures or specified procedures covered the remainder of underlying profit before tax (8%), revenue (12%) and total assets (1%).
Materiality	• Overall Group materiality of £6m represents 5% of underlying profit before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, we do not provide a separate opinion on these matters.

Risk

Over valuation of property assets

1. **Pub estate – through either higher multiples than the market and/or fair maintainable trade ("FMT") in excess of achievable income.**
2. **Commercial property – through either higher multiples than the market and/or overstatement of estimated rental value ("ERV").**

(2017: Property, plant and equipment £3,322m; investment property £270m; 2016: property, plant and equipment £3,434m; investment property £196m)

Refer to the Audit Committee report (pages 51 to 56); accounting policies (pages 81 to 86); and note 18 of the consolidated financial statements (pages 101 to 104)

This is the largest estimate within the financial statements, prepared on an asset by asset basis for 4,374 individual assets. The valuation is performed by a combination of internal and external appropriately qualified valuers (as described in note 18). The valuation has been performed by third party independent valuers for 95% of the properties by value (2016: 94%).

The risk is the overvaluation of the Group's property assets as a result of the use of valuation multiples above "normal" market ranges or where FMT for the pub estate and ERV for the commercial property estate differs from actual income outside the expected range dependant on the lease profile of the asset.

As a result of continued uncertainty over the impact of the MRO legislation and the UK economy, we consider the risk of material misstatement to remain consistent with the prior year.

Our response to the risk

Valuation of the property estate was included wholly within that part of the audit subject to full scope procedures.

We identified, documented and confirmed our understanding of the controls operated by the Group surrounding the valuation process.

We analysed managements' analysis over the estate which documents their conclusions with regard to the appropriateness of the valuations.

We examined the trading and valuation trends in the UK pub market, together with the specific factors affecting the Group as noted above, to develop our expectations.

We checked that the source data (being the annual rent, beer volumes and managed operations trading results) provided to the internal and external valuers agreed to the underlying financial records.

Together with our internal property valuation specialists, we met with the Group's internal and external valuers to challenge the method adopted, the derivation of the key inputs of fair maintainable trade and earnings multiple (as described in note 18) and the nature and extent of the work they performed in preparing the valuations. We assessed the valuers' conclusions regarding the continued uncertainty over the impact of MRO and the UK economy on the valuation of the property estate.

For the movement in the value of the estate as a whole, the movement in the value of appropriate sub divisions of the estate, and where necessary, the movement in the value of individual assets, we sought explanations ensuring these were consistent with our expectations.

In order to select a sample focused on those asset valuations we considered to be most at risk of misstatement, we analysed features including the trading performance of the individual asset and the nature of the rent agreement. Utilising bespoke analytics over the whole estate, sorted by valuer, we highlighted those classes of assets, or individual assets, where the movement in value was inconsistent with our expectations.

Particular focus was placed on assets where the multiple applied was higher than our expected range (informed through historically achieved ranges by region, multiples achieved through observable market transactions in the period and trends in yields from external data sources); where movements in the FMT-actual income gap were not congruent with underlying changes in the lease agreement profile of the assets or where the ERV applied in the valuation was materially different to the actual rental value.

We also selected a random sample of assets to add unpredictability into our sampling approach.

From this analysis, we selected a sample 125 (2016: 91) asset valuations which were representative of the movements in value that were inconsistent with our expectations. For our sample, we obtained explanations for the movements identified from the internal and external valuers. We agreed changes in factual circumstances to relevant documentation.

Key observations communicated to the Audit Committee

The valuers have adopted an approach to the valuation of the Group's properties which is appropriate, consistent, and in accordance with applicable guidance.

The valuation of the properties falls within our acceptable range and we identified no material overstatement of property values.

Risk

Failure to impair goodwill in respect of either the Ei Publican Partnerships or commercial property segments through inappropriate impairment model assumptions in respect of discount rate, long-term growth or underlying short-term forecasts.

(2017: £312m; 2016: £321m)

Refer to the Audit Committee report (pages 51 to 56); accounting policies (pages 81 to 86); and note 13 of the consolidated financial statements (pages 95 to 96)

As discussed in note 13, the Group has five cash generating units ("CGUs") (2016: five). The Group is required to allocate goodwill between CGUs and test impairment for each CGU.

The Group has goodwill with a total carrying value of £312m (2016: £321m) of which £271m relates to the Ei Publican Partnerships (2016: £296m) and £24m relates to the commercial property estate. The impairment test is sensitive to the key assumptions of discount rate, the level of forecast cash flows (including long-term growth rate assumptions) and the results of the estate valuation exercise as described in note 13.

We consider the risk to remain consistent with prior year given the continued uncertainty of the impact of the MRO legislation and the UK economy on the assumptions used in the impairment test.

Our response to the risk

Goodwill was included wholly within that part of the audit subject to full scope procedures.

We identified, documented and confirmed our understanding of the controls operated by the Group surrounding the goodwill allocation and impairment process.

We tested the basis on which goodwill had been allocated to the CGUs.

We examined the cash flow forecasts by testing the underlying models, which included an analysis of the underlying assumptions, and by reference to the accuracy of previous forecasts and underlying assumptions.

The key assumptions of the discount rate and long-term growth rate underlying the goodwill impairment test were addressed through a combination of testing the Group's detailed calculations, benchmarking the assumptions used against comparator companies and, in respect of the discount rate assumption, an independent assessment by our specialists based on general market indicators.

Key observations communicated to the Audit Committee

The pre-tax discount rate of 7.8% applied in the impairment tests for Ei Publican Partnerships and commercial property is towards the low end of our acceptable range.

The assumption for long-term growth rate of 2% is consistent with economic forecasts.

The short-term forecasts are consistent with those approved by the board and management have demonstrated that their forecasting process is historically accurate.

Risk

Misstatement of deferred tax liability due to the following complexities evaluated through a bespoke tax model: (a) indexation; (b) rolled over gains; (c) capital allowances; (d) DRE claims; (e) allocation between performance statements.

Refer to the Audit Committee report (pages 51 to 56); accounting policies (pages 81 to 86); and note 27 of the consolidated financial statements (page 117)

The deferred tax liability associated with carrying the pub estate at valuation (which the Group refer to as contingent tax) of £136m (2016: £146m) is established through an internally developed model set up on a pub by pub basis. Due to the impact of indexation (and restrictions thereon), the ability to roll over gains and carry forward losses, and the difference between cost for accounting and taxation purposes, the calculation of the contingent tax is complex.

The recognition of any resultant movement in the contingent tax between the income statement and other comprehensive income is also complex, being impacted by any accounting valuation surplus or deficit and whether or not the pub was acquired through a business combination that was revisited at the time of transition to IFRS.

In addition to the contingent tax arising on revaluation, the Group has a substantial deferred tax balance arising in respect of qualifying capital expenditure on the estate (for which capital allowances can be obtained). This calculation is impacted by the disposal of pubs and the accounting and tax values ascribed to the associated qualifying expenditure.

We consider the risk to remain consistent with the prior period given there have been no significant changes in accounting and tax regulations.

Our response to the risk

The deferred tax liability is wholly within the components subject to full scope audits.

We identified, documented and confirmed our understanding of the controls operated by the Group surrounding the recognition of the deferred tax liability arising on the valuation of the estate.

We selected a sample of 75 (2016: 72) assets across the estate. With support from our tax specialists, we re-performed the calculation of deferred tax to validate the integrity of the model utilised by the Group to calculate deferred tax on the estate valuation.

We re-performed the overall proof of tax prepared by management on a performance statement basis and compared movements in the year with our expectations. We investigated representative assets to validate the movement.

Key observations communicated to the Audit Committee

The process for deriving the deferred tax liability in respect of the estate has resulted in liabilities which are fairly stated.

Risk

Failure to impair Company only investments through inappropriate impairment model assumptions in respect of discount rate, long-term growth and underlying short-term forecasts.

Company investments (2017: £1,790m; 2016: £1,790m)

Refer to the accounting policies (pages 81 to 86); and note 19 of the consolidated financial statements (page 105)

The Company has investments with a total carrying value of £1,790m (2016: £1,790m) which are subject to an annual impairment test in accordance with IAS 36. The impairment test is sensitive to the key assumptions of discount rate, the level of forecast cash flows (including long-term growth rate assumptions) and the results of the estate valuation exercise, as described in note 19.

This is a new risk in the current year given the impairment charge of £45m made in the prior year and sensitivity of the impairment test to key assumptions which may give rise to a further impairment in the current year.

Our response to the risk

Company investments were in scope for the Parent Company financial statements.

We identified, documented and confirmed our understanding of the controls operated by the Company surrounding the investment impairment review.

We examined the cash flow forecasts by testing the underlying models, including analysis of the underlying assumptions, and by reference to the accuracy of previous forecasts and underlying assumptions.

The key assumptions of discount rate and long-term growth rate underlying the investment impairment test were considered through a combination of testing the Company's detailed calculations, benchmarking the output against comparator companies and, in respect of the discount rate assumption, an independent assessment by our specialists based on general market indicators.

In addition, we validated the premium applied to the Group's long-term growth rate for the relevant subgroup on a standalone basis.

Key observations communicated to the Audit Committee

We concur with management that no impairment needs to be recorded in respect of the carrying value of the Company investments.

The pre-tax discount rate of 7.8% applied in the impairment test is towards the low end of our acceptable range.

The long-term growth rate of 2.3% is higher than the Group rate of 2% but is consistent with the higher quality of the subsidiary's estate.

The short-term forecasts are consistent with those approved by the Board.

Other matters

The overstatement of wet, dry, food and amusement income through manual journal postings, and the risk of fraud as a result of management override (through inappropriate classification of items as non-underlying or through the classification of expenditure between capital or expense) are also considered significant risks, but have not been included as a key audit matter as they were not areas of greatest audit effort.

In our prior year auditor's report, we also considered that the failure to correctly account for the terms of new contractual arrangements for wet products entered into during that year was a significant risk. However it was not included as a key audit matter in the prior year as this was not an area of greatest audit effort. Given the lack of new contractual arrangements for wet products in the current year, and given that no issues were identified with regards to the accounting applied for new arrangements in the prior year, we no longer consider this to be a significant risk.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each entity.

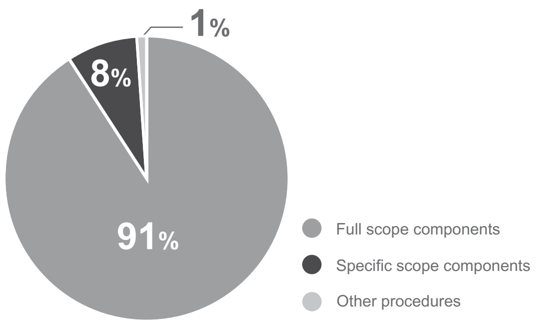
The Group has common financial systems, processes and controls covering its operations with the exception of ten of the Group's managed house operations which are managed on stand-alone systems maintained by third party managers. These ten operations are subject to specified procedures. We assessed the risk of material misstatement to the financial statements, and ensured we had adequate coverage of significant accounts in the financial statements, of the 24 (2016:19) reporting components of the Group. We performed an audit of the complete financial information of four (2016: four) full scope components, performed specific scope procedures in respect of three components (2016: seven) and performed specified procedures in respect of 17 components (2016: eight).

The audits of the entities subject to full and specific scope audits (which represent the principal business units within the Group, one being the Parent Company itself) are performed at a materiality level calculated by reference to a proportion of the Group materiality appropriate to the relevant scale and risk of the business concerned. In the current year, the range of performance materiality allocated to these components was £0.9m (2016: £0.9m) to £3.2m (2016: £3.1m).

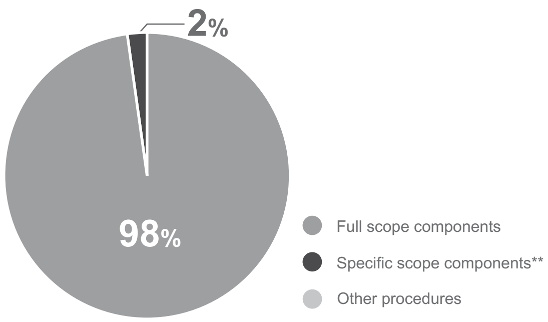
Of the remaining 17 components that together represent 1% of the Group's underlying profit before tax, none are individually greater than 1% of the Group's underlying profit before tax. For these components, we performed other procedures, including analytical review; review of Group wide entity level controls; testing of consolidation journals, manual journals, and intercompany eliminations; and the assessment of control in accordance with IFRS 10; to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.

Underlying profit before tax (2017)



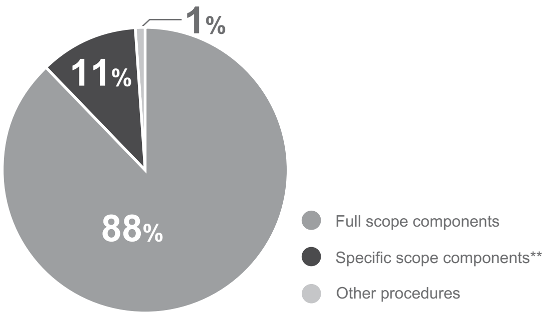
Underlying profit before tax (2016*)



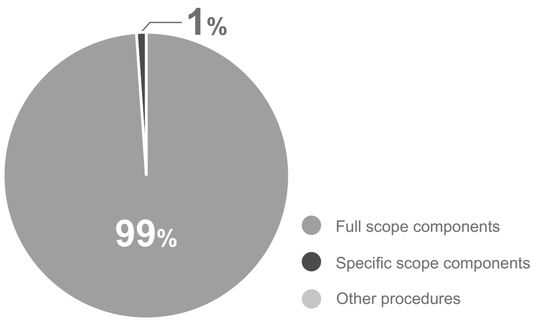
* 2016 underlying profit before tax restated to reflect proportion of underlying profit before tax, not including profit/loss on disposal of property, plant and equipment, in line with the current year materiality basis.

** Specific scope components represent 8% of underlying profit before tax (2016: 2%) and procedures have been performed on material balances within underlying profit before tax. These components are not full scope as they only represent 1% of the Group's total assets.

Revenue (2017)



Total assets (2017)



Changes from the prior year

The increase in components subject to specified procedures to 17 (2016: eight) is due to six new managed expert entities in the year in addition to reducing the scope from specific scope procedures to specified procedures for four entities as no issues were noted over procedures performed in the prior year and one entity becoming dormant in the year.

Our application of materiality

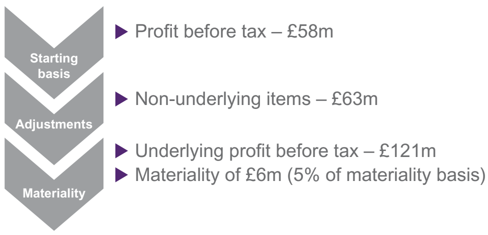
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £6m (2016: £5.9m), which is 5% (2016: 5%) of underlying profit before tax. For 2016, in determining our benchmark of materiality, we added back the net loss on sale of property to underlying profit before tax. In the current year, we have used underlying profit before tax as our materiality benchmark as it provides a normalised trend in profitability.

During the course of our audit, we reassessed initial materiality and note there was no change in our final materiality from our original assessment at planning.



Independent auditor's report (Continued)
to the members of Ei Group plc

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment and limited historical audit findings indicating a lower risk of undetected misstatement in the financial statements, we set performance materiality at 75% (2016: 75%) of our planning materiality, namely £4.5m (2016: £4.4m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.3m (2016: £0.3m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 34 to 39 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 34 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 39 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 39 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Other information

In the context of the Annual Report and Accounts, other information comprises the information included in the Annual Report including the strategic report, set out on pages 1 to 39, governance, set out on pages 40 to 73, and shareholder information set out on pages 136 to 142 and the inside back cover, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 56 –** the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting set out on pages 51 to 56 –** the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 46 –** the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 73, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Explanation of the extent to which our audit can detect fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant framework is the Small Business, Enterprise and Employment Act 2015, in particular the new Statutory Code of Practice.
- We understood how Ei Group plc is complying with this framework by making enquiries of management, internal audit, those responsible for legal and compliance procedures, and the Company Secretary. We corroborated our enquiries through the review of board minutes, review of internal audit reports, papers provided to the Audit Committee and correspondence received from regulatory bodies.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where they considered there was susceptibility to fraud. In addition, we also performed specific procedures to respond to our fraud risks of overstatement of wet, dry, food and amusement income through manual journal postings, and the risk of fraud as a result of management override (through inappropriate classification of items as non-underlying or through the classification of expenditure between capital or expense). Such procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations that we considered could result in a material misstatement of the financial statements. Our procedures included a review of board minutes to identify any non-compliance with laws and regulations, a review of papers provided to the Audit Committee by internal audit on compliance with regulations and enquiries with the Director of Internal Audit, management and the Company Secretary.

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

Following the recommendation of the Audit Committee, we were appointed as auditors by the Audit Committee and signed an engagement letter on 19 September 2017. We were appointed by the Company at the AGM to audit the financial statements for the year ending 30 September 1991 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 27 years, covering the years ending 30 September 1991 to 30 September 2017.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.

The audit opinion is consistent with the additional report to the Audit Committee.

Christopher Voogd (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham
20 November 2017

Notes:

1. The maintenance and integrity of the Ei Group plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Group income statement

for the year ended 30 September 2017

	Notes	2017	2016
		£m	£m
Revenue	6	**648**	632
Operating costs before depreciation and amortisation	7	**(370)**	(343)
EBITDA*		**278**	289
Depreciation and amortisation	7	**(17)**	(16)
Operating profit		**261**	273
Profit on sale of property		**10**	5
Goodwill allocated to disposals		**(10)**	(9)
Net loss on sale of property	5	**—**	(4)
Movements in valuation of the estate and related assets	5	**(24)**	(33)
Finance costs	10	**(179)**	(161)
Profit before tax		**58**	75
Taxation	11	**(4)**	(4)
Profit after tax attributable to members of the Parent Company		**54**	71
Earnings per share	12		
Basic		**11.2p**	14.2p
Basic diluted		**11.1p**	13.7p

* Earnings before finance costs, taxation, depreciation and amortisation

Group statement of comprehensive income

for the year ended 30 September 2017

	2017 £m	2016 £m
Profit for the year	**54**	71
Items that will not be reclassified to the income statement:		
Unrealised surplus on revaluation of pub estate	**11**	21
Revaluation of assets on transfer to investment property	**1**	—
Revaluation of assets on transfer to non-current assets held for sale	**(6)**	(1)
Movement in deferred tax liability related to revaluation of the estate	**3**	—
Restatement of deferred tax liability related to movements in valuation of the estate and related assets for change in UK tax rate	**—**	24
Other comprehensive income for the year net of tax	**9**	44
Total comprehensive income for the year attributable to members of the Parent Company	**63**	115

Balance sheets

at 30 September 2017

	Notes	Group 2017	Group Restated* 2016	Company 2017	Company Restated* 2016
		£m	£m	£m	£m
Non-current assets					
Goodwill	13	**312**	321	**—**	—
Intangible assets: operating lease premiums	14	**9**	9	**4**	4
Property, plant and equipment	15	**3,322**	3,434	**1,722**	1,809
Investment property	16	**270**	196	**119**	82
Investments	19	**—**	—	**1,790**	1,790
Financial assets	23	**—**	—	**9**	2
Trade receivables	21	**2**	3	**1**	1
		3,915	3,963	**3,645**	3,688
Current assets					
Inventories	20	**2**	1	**—**	—
Trade and other receivables	21	**53**	45	**660**	621
Cash		**151**	145	**15**	18
		206	191	**675**	639
Non-current assets held for sale	17	**25**	21	**12**	10
Total assets		**4,146**	4,175	**4,332**	4,337
Current liabilities					
Trade and other payables	22	**(197)**	(183)	**(228)**	(224)
Current tax payable		**(2)**	(8)	**1**	(4)
Financial liabilities	23	**(81)**	(82)	**—**	(5)
Pension	28	**(2)**	(2)	**(2)**	(2)
Provisions	26	**(1)**	—	**(1)**	—
		(283)	(275)	**(230)**	(235)
Non-current liabilities					
Financial liabilities	23	**(2,180)**	(2,261)	**(1,261)**	(1,258)
Provisions	26	**(4)**	(4)	**(3)**	(4)
Deferred tax	27	**(176)**	(185)	**(78)**	(84)
Pension	28	**—**	(2)	**—**	(2)
		(2,360)	(2,452)	**(1,342)**	(1,348)
Total liabilities		**(2,643)**	(2,727)	**(1,572)**	(1,583)
Net assets		**1,503**	1,448	**2,760**	2,754
Equity					
Called up share capital	29	**13**	14	**13**	14
Share premium account	31	**486**	486	**486**	486
Revaluation reserve	31	**747**	748	**430**	446
Capital redemption reserve	31	**12**	11	**12**	11
Merger reserve	31	**77**	77	**—**	—
Treasury share reserve	31	**(227)**	(227)	**(227)**	(227)
Other reserve	31	**18**	10	**347**	339
Profit and loss account^		**376**	328	**1,699**	1,685
Equity attributable to members of the Parent Company		**1,502**	1,447	**2,760**	2,754
Non-controlling interests		**1**	1	**—**	—
Total equity		**1,503**	1,448	**2,760**	2,754

* The figures at 30 September 2016 have been restated for the reclassification of investment property, see note 16.

^ The profit and loss account of the Parent Company is omitted from the Company's accounts by virtue of the exemption granted by section 408 of the Companies Act 2006. The profit generated in the year for ordinary shareholders, and included in the financial statements of the Parent Company, amounted to £20 million (2016: £36 million).

Approved by the Board on 20 November 2017 and signed on its behalf by:

W S Townsend
N R Smith

Statement of changes in equity
at 30 September 2017

	Group										
	Share capital	Share premium account	Revaluation reserve	Capital redemption reserve	Merger reserve	Treasury share reserve	Other reserve	Profit and loss account	Equity attributable to members of the Parent Company	Non-controlling interests	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 October 2015	14	486	730	11	77	(227)	9	246	1,346	—	1,346
Profit for the year	—	—	—	—	—	—	—	71	71	—	71
Other comprehensive income	—	—	44	—	—	—	—	—	44	—	44
Total comprehensive income	—	—	44	—	—	—	—	71	115	—	115
Transfer of realised revaluation surplus	—	—	(19)	—	—	—	—	19	—	—	—
Transfer of deferred tax	—	—	4	—	—	—	—	(4)	—	—	—
Reclassification of deferred tax	—	—	(11)	—	—	—	—	11	—	—	—
Share-based expense recognised in operating profit	—	—	—	—	—	—	—	2	2	—	2
Share option entitlements exercised in the year	—	—	—	—	—	—	2	(2)	—	—	—
Purchase of own shares into Employee Benefit Trust	—	—	—	—	—	—	(1)	—	(1)	—	(1)
Issue of subsidiary share capital to non-controlling interests	—	—	—	—	—	—	—	—	—	1	1
Share buybacks	—	—	—	—	—	—	—	(10)	(10)	—	(10)
Share buyback commitments	—	—	—	—	—	—	—	(5)	(5)	—	(5)
At 30 September 2016	14	486	748	11	77	(227)	10	328	1,447	1	1,448
Profit for the year	—	—	—	—	—	—	—	**54**	**54**	—	**54**
Other comprehensive income	—	—	**9**	—	—	—	—	—	**9**	—	**9**
Total comprehensive income	—	—	**9**	—	—	—	—	**54**	**63**	—	**63**
Transfer of realised revaluation surplus	—	—	**(14)**	—	—	—	—	**14**	—	—	—
Transfer of deferred tax	—	—	**4**	—	—	—	—	**(4)**	—	—	—
Share-based expense recognised in operating profit	—	—	—	—	—	—	—	**3**	**3**	—	**3**
Share option entitlements exercised in the year	—	—	—	—	—	—	**10**	**(9)**	**1**	—	**1**
Purchase of own shares into Employee Benefit Trust	—	—	—	—	—	—	**(2)**	—	**(2)**	—	**(2)**
Share buybacks	**(1)**	—	—	**1**	—	—	—	**(15)**	**(15)**	—	**(15)**
Share buyback commitments	—	—	—	—	—	—	—	**5**	**5**	—	**5**
At 30 September 2017	**13**	**486**	**747**	**12**	**77**	**(227)**	**18**	**376**	**1,502**	**1**	**1,503**

Statement of changes in equity

at 30 September 2017

	Company								
	Share capital	Share premium account	Revaluation reserve	Capital redemption reserve	Merger reserve	Treasury share reserve	Other reserve	Profit and loss account	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 October 2015	14	486	417	11	—	(227)	383	1,613	2,697
Profit for the year	—	—	—	—	—	—	—	36	36
Other comprehensive income	—	—	35	—	—	—	—	—	35
Total comprehensive income	—	—	35	—	—	—	—	36	71
Transfer of realised revaluation surplus	—	—	(11)	—	—	—	—	11	—
Transfer of deferred tax	—	—	1	—	—	—	—	(1)	—
Reclassification of deferred tax	—	—	4	—	—	—	—	(4)	—
Share-based expense recognised in operating profit	—	—	—	—	—	—	—	2	2
Share option entitlements exercised in the year	—	—	—	—	—	—	2	(2)	—
Purchase of own shares into Employee Benefit Trust	—	—	—	—	—	—	(1)	—	(1)
Share buybacks	—	—	—	—	—	—	—	(10)	(10)
Share buyback commitments	—	—	—	—	—	—	—	(5)	(5)
Reclassification (see note 31)	—	—	—	—	—	—	(45)	45	—
At 30 September 2016	14	486	446	11	—	(227)	339	1,685	2,754
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**20**	**20**
Other comprehensive loss	**—**	**—**	**(6)**	**—**	**—**	**—**	**—**	**—**	**(6)**
Total comprehensive (loss)/income	**—**	**—**	**(6)**	**—**	**—**	**—**	**—**	**20**	**14**
Transfer of realised revaluation surplus	**—**	**—**	**(11)**	**—**	**—**	**—**	**—**	**11**	**—**
Transfer of deferred tax	**—**	**—**	**1**	**—**	**—**	**—**	**—**	**(1)**	**—**
Share-based expense recognised in operating profit	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**3**	**3**
Share option entitlements exercised in the year	**—**	**—**	**—**	**—**	**—**	**—**	**10**	**(9)**	**1**
Purchase of own shares into Employee Benefit Trust	—	—	—	—	—	—	(2)	—	(2)
Share buybacks	**(1)**	**—**	**—**	**1**	**—**	**—**	**—**	**(15)**	**(15)**
Share buyback commitments	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**5**	**5**
At 30 September 2017	**13**	**486**	**430**	**12**	**—**	**(227)**	**347**	**1,699**	**2,760**

Cash flow statements
for the year ended 30 September 2017

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Cash flows from operating activities				
Operating profit	**261**	273	**152**	144
Depreciation and amortisation	**17**	16	**10**	11
Share-based expense recognised in profit	**3**	2	**3**	2
Increase in receivables	**(7)**	(5)	**(53)**	(35)
Increase/(decrease) in payables	**3**	1	**(1)**	9
Increase in inventories	**(1)**	(1)	**—**	—
Increase in provisions	**1**	—	**—**	—
	277	286	**111**	131
Expenditure associated with capital structure review	**—**	(6)	**—**	(6)
Tax paid	**(16)**	(11)	**(7)**	(8)
Net cash flows from operating activities	**261**	269	**104**	117
Cash flows from investing activities				
Payments to acquire public houses	**—**	—	**(14)**	(30)
Payments made on improvements to public houses	**(72)**	(70)	**(34)**	(42)
Payments to acquire other property, plant and equipment	**(7)**	(4)	**(6)**	(4)
Receipts from sale of property	**100**	98	**73**	55
New loans to subsidiary undertakings	**—**	—	**(7)**	(2)
Acquisition of subsidiary undertaking	**(1)**	—	**(1)**	—
Dividend from subsidiary undertaking	**—**	—	**13**	13
Net cash flows from investing activities	**20**	24	**24**	(10)
Cash flows from financing activities				
Interest paid	**(149)**	(155)	**(82)**	(82)
Interest received	**—**	1	**—**	—
Debt extinguishment costs	**(30)**	—	**(30)**	—
Debt restructuring costs	**(3)**	(7)	**(3)**	—
Payments to acquire own debt	**—**	(10)	**—**	—
Payments to acquire own shares	**(17)**	(11)	**(17)**	(11)
Receipts from exercise of share options	**1**	—	**1**	—
Proceeds from the issue of subsidiary share capital to non-controlling interests	**—**	1	**—**	—
New loans	**520**	75	**520**	75
Repayment of loans	**(597)**	(169)	**(520)**	(95)
Net cash flows from financing activities	**(275)**	(275)	**(131)**	(113)
Net increase/(decrease) in cash	**6**	18	**(3)**	(6)
Cash at start of year	**145**	127	**18**	24
Cash at end of year	**151**	145	**15**	18

Notes to the accounts
at 30 September 2017

1. General information

The consolidated financial statements of Ei Group plc (the 'Parent Company' or the 'Company') for the year ended 30 September 2017 were authorised for issue by the Board on 20 November 2017. Ei Group plc is a public company limited by shares, incorporated and registered in England. The Company's ordinary shares are traded on the London Stock Exchange.

2. Presentation of financial statements

Statement of compliance

These financial statements are prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis of preparation

The financial information for the year ending 30 September 2017 has been prepared in accordance with the accounting policies set out in note 3 and is presented in pounds sterling. Amounts are shown in millions, unless stated otherwise.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Ei Group plc and its subsidiaries. Consolidated financial statements are drawn up to 30 September each year and adjustments are made to the financial statements of the subsidiaries where necessary to bring the accounting policies used in line with those used by the Group.

Subsidiaries are those controlled by the Group. Control exists when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity taking into account any potential voting rights. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

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

Result of the Parent Company

The directors have taken advantage of the exemption provided under section 408 of the Companies Act 2006 not to publish the Parent Company individual income statement, statement of comprehensive income and related notes.

Going concern

The Group's business activities, including a description of its financial position, cash flows, debt and borrowing facilities, are set out in the strategic report on pages 1 to 39, along with a summary of factors likely to affect the Group's future development and performance.

Further details on the Group's financial instruments and risks can be found in note 23 of the accounts on pages 107 to 114.

The directors have considered the Group's financial resources including a review of the medium-term financial plan, which includes a review of the Group's cash flow forecasts for the period of at least 12 months from the date of approval of these financial statements along with the principal risks and uncertainties as described on pages 34 to 39.

Based on the outcome of the above considerations the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the period under review. For this reason the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

Investment property

The Group leases some properties to tenants on commercial leases within the Commercial Properties segment. As this segment expands the Group recognises that the value attributed to these assets is now a

2. Presentation of financial statements (Continued)

material balance and has consequentially reclassified this balance from property, plant and equipment to investment property in the balance sheet. The impact of this change is that all revaluation movements on investment property are recognised in the income statement, rather than impacting the revaluation reserve. Although the balance sheet amounts have been reclassified for the comparative period, a balance sheet for the year ended 30 September 2015 has not been presented as this has been assessed as not material. The impact on the income statement has also been assessed as not material and it has therefore not been restated.

New standards and interpretations not yet adopted

During the year ended 30 September 2017 the Group has adopted the following amendments to existing standards, these have not had a material impact on the Group:

- IAS 1: Presentation of Financial Statements

  Disclosure initiative – amendments to IAS 1

- IAS 27: Separate Financial Statements

  Equity method in separate financial statements – amendments to IAS 27

- IAS 40: Investment Property

  Transfers of investment property – amendment to IAS 40

  The amendment clarifies the conditions required to transfer properties to/from investment property.

The following standards and interpretations have been issued but are not yet effective. Those listed below are not expected to have a material impact on the Group, these are grouped by effective date.

Effective for periods beginning on or after 1 January 2017, which is the year ended 30 September 2018 for the Group, although earlier application is permitted:

- IAS 12: Income Taxes

  Recognition of deferred tax assets for unrealised losses – amendment to IAS 12

- IAS 7: Statement of Cash Flows

  Disclosure initiative – amendments to IAS 7

  The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financial activities, including both changes arising from cash flows and non-cash changes.

Effective for periods beginning on or after 1 January 2018, which is the year ended 30 September 2019 for the Group, although earlier application is permitted:

- IFRS 2: Share-Based Payments

  Classification and measurement of share-based payment transactions—amendments to IFRS 2

  The amendment clarifies the accounting around cash-settled share-based payment transactions and those with net settlement features.

Effective for periods beginning on or after 1 January 2019 which is the year ended 30 September 2020 for the Group:

- IFRIC 23: Uncertainty over Income Tax Treatments issued

  The Interpretation sets out how to determine the accounting tax position when there is uncertainty over income tax treatments.

The Group is currently in the process of concluding on the full impact of the following three standards:

- IFRS 9: Financial Instruments

  The new standard is effective for periods beginning on or after 1 January 2018 which is the year ended 30 September 2019 for the Group, although earlier application is permitted.

2. Presentation of financial statements (Continued)

The new standard replaces IAS 39 and covers the classification, measurement and derecognition of financial assets and liabilities and a new expected credit loss model for calculating impairment to financial assets. The Group is in the process of reviewing the implications of the adoption of this standard.

- IFRS 15: Revenue from Contracts with Customers

The new standard is effective for periods beginning on or after 1 January 2018 which is the year ended 30 September 2019 for the Group, although earlier application is permitted.

The core principle of IFRS 15 is that an entity will recognise revenue in line with the transfer of each element of promised goods or services in a contract to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those individual elements of goods or services. This core principle is delivered in a five-step model framework that involves allocating the transaction price to each performance condition within a contract.

The Group is in the process of considering the terms of contracts it enters into with customers with regard to this framework in order to assess the effect of adopting this new standard. Based on the work carried out to date the Group currently does not expect any material changes to either revenue or profit as a result of adopting IFRS 15 however intends to conclude on this accounting within the forthcoming financial year.

- IFRS 16: Leases

The new standard is effective for periods beginning on or after 1 January 2019 which is the year ended 30 September 2020 for the Group, although earlier application is permitted if IFRS 15—Revenue from Contracts with Customers is also applied.

IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that appropriately represents those transactions. It requires lessees to recognise assets and liabilities for all leases unless the underlying asset has a low value or the lease term is 12 months or less.

On adoption the Group will recognise a right of use asset and a lease liability based on the net present value of the payments required under each of its leases. The operating lease charge, currently recognised in EBITDA will be replaced by the depreciation of the right of use asset and interest on the lease liability. As well as a change to the line items in the income statement it is also expected to change the profile of the net charge recognised in the income statement over the lease term.

The Group continues to assess the full impact of IFRS 16, however, the impact will depend on the facts and circumstances at the point of adoption and upon transition choices adopted.

3. Accounting policies

Goodwill

Goodwill represents the excess of consideration over the fair value of identifiable assets and liabilities acquired in a business combination. Goodwill is not amortised but is tested for impairment annually, or more frequently where events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is stated at cost less any impairment. Goodwill has been allocated to individual properties based on a relative value and on disposal of a property, this attributable amount of goodwill is included in the determination of profit or loss on sale. For the purpose of impairment testing, goodwill is allocated to cash generating units that are consistent with the Group's operating segments. As properties move between segments the associated goodwill will also be transferred.

Goodwill arising on acquisitions prior to 1 October 1998 was written off against reserves and has not been subsequently reversed. Any such goodwill is not included in determining the profit or loss on disposal.

Fixed asset investments

Fixed asset investments in the Parent Company balance sheet are initially recognised at fair value and then held at this value subject to an annual impairment test.

3. Accounting policies (Continued)

Property, plant and equipment

Licensed land and buildings are held at their fair value, and landlord's fixtures and fittings and other assets are held at cost.

The Group's licensed land and buildings recognised in property, plant and equipment, are revalued each year by external valuers or employees who are professionally qualified to carry out such valuations.

Surpluses arising from the revaluation exercise are taken through other comprehensive income to the revaluation reserve except where they reverse a revaluation decrease relating to the same asset previously recognised as an expense in the income statement. Any deficit arising from the revaluation exercise is taken through other comprehensive income to the revaluation reserve to the extent that there is a surplus in place relating to the same asset. Any further decrease in value is recognised in the income statement as an expense.

Freehold land is not depreciated. Freehold buildings are depreciated so as to write off the difference between their carrying value and residual value over their useful economic life of 50 years. Residual value is reviewed at least at each financial year end and there is no depreciable amount if residual value is the same as, or exceeds, book value.

Landlord's fixtures and fittings are split into two categories, long-life landlord's fixtures and fittings and short-life landlord's fixtures and fittings. Both are held at cost less accumulated depreciation. The useful economic life of additions in the form of long-life landlord's fixtures and fittings has been calculated at 30 years and additions to short-life landlord's fixtures and fittings has been calculated at five years. Depreciation is charged on a straight line basis to write off the total cost less residual value over the useful economic life.

Properties held under finance leases are depreciated on a straight line basis over the shorter of the remaining lease term and their useful economic life of 50 years.

Depreciation is provided on other categories of property, plant and equipment over three to 50 years on a straight line basis to residual value.

Property, plant and equipment is reviewed annually for indicators of impairment. Where any indicators are identified, assets are assessed fully for impairment. Impairment occurs where the recoverable amount of the asset is less than its carrying amount. Recoverable amount is the higher of an asset's fair value less costs to dispose and value in use. Any impairment loss is treated as a revaluation decrease to the extent that a surplus exists for the same asset, and thereafter as an expense in the income statement.

Investment property

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

Transfers are made to/from investment property when there is change of use evidenced by a change in the lease terms. When a property transfers from property, plant and equipment to investment property it is revalued to fair value and the movement recognised in line with the accounting policy described under property, plant and equipment. When a property transfers from investment property to property, plant and equipment it is revalued to fair value and the movement recognised in the income statement.

Non-current assets held for sale

Properties identified for disposal which are classified in the balance sheet as non-current assets held for sale are held at the lower of carrying value on transfer to non-current assets held for sale, as assessed at the time of transfer, and fair value less costs to dispose. The fair value less costs to dispose is based on the net estimated realisable disposal proceeds (ERV) which is provided by third party property agents who have been engaged to sell the properties. Licensed land and buildings, investment property and operating lease intangibles are classified as held for sale when they have been identified for disposal by the Group. They

3. Accounting policies (Continued)

must be available for immediate sale in their present condition and the sale should be highly probable. These conditions are met when management are committed to the sale, the property or lease is actively marketed and the sale is expected to occur within one year. Licensed land and buildings held for sale are not depreciated and operating lease intangible assets held for sale are not amortised.

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

Inventories

Inventories which comprise products held for resale in managed houses are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Leases

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Properties acquired under finance leases are capitalised at the lower of their fair value and the present value of future minimum lease payments. The corresponding liability is included in the balance sheet as a finance lease payable. Properties held under finance leases are revalued along with the freehold estate on an annual basis. Lease payments are apportioned between finance charges and reduction of the lease liability so as to obtain a constant rate of interest on the remaining balance of the liability. Finance charges are taken as an expense to the income statement.

Leases where substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals paid under operating leases are charged on a straight line basis to the income statement over the lease term. The fair value attributed to properties acquired as part of business combinations that are held as operating leases are classified in the balance sheet as intangible assets: operating lease premiums within non-current assets and are amortised over the lease term.

The Group has previously entered into sale and leaseback transactions where licensed land and buildings have been sold and the Group has immediately entered into a lease agreement with the acquiree. These land and buildings have been classified as operating leases. They are no longer included within property, plant and equipment and the rentals paid are charged on a straight line basis to the income statement over the lease term.

Repairs and maintenance

Repairs and maintenance expenditure is charged to the income statement as incurred.

Assignment premiums

Where an amount is paid to a publican in order to take the assignment of a lease or to break a lease at any point other than at renewal, the payment made is expensed through administrative costs. During the period of our strategic change, this will be treated as non-underlying.

Where an amount is paid to a publican in order to regain control of the property at the point of lease renewal in order that the Group can operate the site as a directly managed pub and the amount is linked to a capital investment project in order to reposition the property for the managed offering, the premium paid is capitalised and depreciated in line with the project spend.

Financial instruments

a) Cash and cash equivalents

Cash comprises cash at bank and in hand. Any short-term deposits with an original maturity date of three months or less are classified as cash equivalents.

3. Accounting policies (Continued)

b) Borrowings

Borrowings which include bank borrowings, corporate bonds and securitised bonds are measured at amortised cost. This method is used to ensure that the interest charge associated with the debt, combined with the amortisation of the issue costs, premiums and discounts, represents a constant percentage of the borrowings across the life of the instrument based on the estimated cash flows and the contractual terms of the agreement.

When borrowings are refinanced the Group reviews whether the arrangement constitutes an extinguishment of the original financial liability and the recognition of a new financial liability or a modification of the terms of the existing financial liability. If the refinanced borrowings are accounted for as an extinguishment of the original financial liability, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment and written off through non-underlying finance costs. If the refinanced borrowings are accounted for as a modification, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining life of the modified loan.

c) Convertible financial instruments

The gross proceeds received from the issue of a convertible bond are split between a liability element and an equity component at the date of issue. The fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible bond and the fair value assigned to the liability component, representing any embedded option to convert the liability into equity of the Company, is included in equity and is not remeasured. The liability component is carried at amortised cost using the effective interest method until extinguished upon conversion or the instrument's maturity date. Issue costs are apportioned between the liability and equity components of the convertible bond based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

The difference between the interest expense calculated under the effective interest rate method and interest paid to bondholders is added to the carrying amount of the convertible bond.

d) Equity instruments

Equity instruments, being ordinary shares issued by the Parent Company, are recorded at the fair value of the proceeds received, net of any direct issue costs. The nominal value of shares issued is recorded in called up share capital and the balance of the net proceeds is recorded in share premium.

When the Group returns surplus cash to shareholders through share buybacks, consideration paid or payable for shares purchased for cancellation is deducted from equity. The Company uses contingent share purchase contracts and the obligation to purchase shares is recognised in full at the inception of the contract. Any subsequent reduction in the obligation caused by the expiry or termination of a contract is credited back to equity at that time.

e) Trade receivables and trade payables

Trade receivables and trade payables are held at amortised cost.

Fair value measurement

The Group measures licensed land and buildings, within property, plant and equipment, investment property and non-current assets held for sale, at fair value and provides disclosure information in respect of the financial assets and liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group.

The fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market

3. Accounting policies (Continued)

participant that would use the asset in its highest and best use provided that use was physically possible, legally permissible and financially feasible to access. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

IFRS 13 requires that all assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole.

The classification uses the following three-level hierarchy:

- Level 1—Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2—Other techniques whereby the inputs are either directly or indirectly derived from market data.
- Level 3—Inputs used in the valuation are not based on observable market data.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Net debt

Net debt is the total book value of all financial assets and liabilities (not including trade receivables, trade payables and the equity component of the convertible bond) less cash. Underlying net debt is the nominal value of all financial assets and liabilities (not including trade receivables, trade payables and the equity component of the convertible bond) less cash.

Taxation

The tax expense comprises both the tax payable based on taxable profits for the year and deferred tax. Deferred tax is provided using the balance sheet liability method in respect of temporary differences between the carrying value of assets and liabilities for accounting and tax purposes. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. No deferred tax is recognised if the taxable temporary difference arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted by the balance sheet date. The measurement reflects the Group's expectations at the balance sheet date as to the manner in which the carrying amount of its assets and liabilities will be recovered or settled.

Current tax assets and liabilities are offset where there is a legally enforceable right to offset the recognised amounts and the intention is to either settle on a net basis or realise the asset and liability simultaneously. Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities, and the assets and liabilities relate to taxes levied by the same tax authority which are intended to be settled net or simultaneously.

Tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly tax is charged or credited directly to equity if it relates to items charged or credited directly to equity. Otherwise tax is charged in the income statement. Tax is calculated using tax rates enacted or substantively enacted at the balance sheet date.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, the amount of the provision is discounted using a pre-tax

3. Accounting policies (Continued)

rate that reflects current market assessments of the time value of money and the risks specific to the liability. The amount of the provision would therefore represent the present value of the expenditure expected to be required to settle the obligation.

Pension obligations

The Group has both defined contribution and defined benefit pension arrangements.

The cost of defined contribution payments made to employees' own pension plans is charged to the income statement as incurred.

As described in note 28, the Group entered into a bulk annuity policy that is a qualifying insurance policy in respect of the defined benefit section of the pension scheme.

Having entered into this policy, the scheme liabilities continue to be valued on the projected unit credit method and then the value of the annuity policy is stated as equal to the amount ascribed to the plan liabilities covered by the policy. Actuarial movements in the value of the scheme liabilities and the interest costs on scheme liabilities are matched by equivalent movements in the scheme asset. To the extent that the Group is committed to deferred premiums or future administration costs in respect of the annuity policy or the scheme, these are recorded as an additional liability within the pension deficit at the net present value of future premiums. The interest paid on the bulk annuity policy is charged as a finance cost. The plan obligations will be derecognised on final settlement of the plan.

Treasury shares

The cost of own shares held in employee benefit trusts and in treasury is deducted from shareholders' equity until the shares are cancelled, re-issued or disposed of. Any proceeds received are also taken to shareholders' equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of own shares held.

Revenue recognition

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

Share-based payments

The Group operates a number of equity-settled share-based payment schemes for employees. Share-based payments are measured at fair value at the date of the award. This value is subsequently updated at each balance sheet date for management's best estimate of the effect of non-market based vesting conditions on the number of equity instruments that will ultimately vest. In valuing equity-settled transactions, no account is taken of any service and performance (vesting conditions), other than performance conditions linked to the price of the shares of the Parent Company (market conditions). Any other conditions which are required to be met in order for an employee to become fully entitled to an award are considered to be non-vesting conditions. Like market performance conditions, non-vesting conditions are taken into account in determining the grant date fair value. The fair value is recognised as an expense over the vesting period by calculating the cumulative expense and recognising the movement in the cumulative expense in the income statement. A corresponding entry is made to equity.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance or service conditions are satisfied.

Dividends

Final dividends are recognised as a liability when they have been approved by shareholders at the Annual General Meeting. Interim dividends are recognised when they are paid.

3. Accounting policies (Continued)

Operating profit

Operating profit as referred to in the income statement is defined as being profit generated from normal trading activities before net profit/(loss) on sale of property, movements in valuation of the estate and related assets, finance costs and taxation.

Non-underlying items

The Group uses adjusted figures as key performance measures in addition to those reported under IFRS as management believe these measures enable them to assess the underlying performance of the business. Adjusted figures exclude non-underlying items which comprise the following exceptional items, non-recurring items and other adjusting items:

a) Operating costs

Non-underlying operating costs relating to regulatory matters and reorganisational costs have been recognised in the operating costs before depreciation and amortisation line.

In addition, during the period of our strategic change, assignment premiums where an amount is paid to a publican in order to take the assignment of a lease or to break a lease at any point other than at renewal would be treated as non-underlying. These costs have been incurred following the strategic review and are not considered to be part of the underlying business as they are not expected to recur once the strategic realignment of properties has been completed. This period will allow a full cycle of rent reviews over which time the Group will assess the optimal strategic location for each asset which may include the payment of an assignment premium to allow the Group access to the property.

b) Net profit/(loss) on sale of property

Net profit/(loss) arising from the sale of property less goodwill allocated to disposals. The Group's trading operations are based around the income earned from owning property and therefore the profit or loss made from the sale of property is considered to be non-underlying.

c) Movements in valuation of the estate and related assets

Any revaluation that causes the book value of a property held in property, plant and equipment to fall below historic cost will lead to a charge in the income statement. If that same property later recovers in value so that its book value exceeds historic cost, the increase in value is credited to the income statement to the extent that a debit was previously recognised. Where properties identified for disposal are revalued immediately prior to transfer to non-current assets held for sale, the revaluation movement is recognised on the same basis.

Any gain or loss arising from the change in value of investment property is recognised in the income statement in the period in which it arises.

Movements in valuation of the estate and related assets do not directly result from underlying trading performance of the Group in any one reporting period and therefore have been categorised as non-underlying since they are not in the direct control of the Group.

d) Net finance costs

The gain or loss on purchase of own debt is calculated as the difference between the carrying value of the debt purchased less the aggregate of the consideration and related transaction costs paid. The Group has elected to take the gain or loss on the settlement date.

Non-underlying finance costs are recognised in relation to fees written off following the commitment to extinguish or restructure borrowings or where incurred as part of debt restructuring projects.

e) Taxation

A deferred tax liability has been recognised on the balance sheet relating to the estate. On transition to IFRS, the Group elected to apply IFRS 3 retrospectively to acquisitions from 1 January 1999. This led to

3. Accounting policies (Continued)

an increase in goodwill in respect of this deferred tax. As this pre-acquisition liability changes due to capital gains indexation relief and changes in the rate of UK tax, a debit or a credit is recognised in the income statement. This has been classified as a non-underlying tax item due to its size and because it does not relate to any income or expense recognised in the income statement in the same period. All other movements in respect of this deferred tax liability are accounted for in the same performance statement as the gross item to which it relates.

The effect of changes in the substantively enacted rate of tax used to calculate deferred tax is reflected in other comprehensive income to the extent it relates to revaluation surpluses therein and in non-underlying profit/loss for all other elements of deferred tax.

The tax effect of all other non-underlying items is categorised as non-underlying in the income statement.

Use of accounting estimates and judgements

The Group makes estimates and assumptions during the preparation of the financial statements. Actual results may differ from these estimates under different assumptions and conditions. The estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements are discussed below:

a) Property, plant and equipment and investment property

Property assets are revalued annually to fair value in accordance with the Appraisal and Valuation Manual published by the Royal Institute of Chartered Surveyors (RICS) and IFRS 13. The valuation is based on an assessment of the income generating potential of the properties, and applying an appropriate multiple. The highest and best use for the property assets is assumed to be their current use by the Group, principally due to the legal restrictions imposed by the agreement with the publican, planning regulations and the financial implications of a change of use given those restrictions and the Group's business model. However, consideration is given to an alternative highest and best use if there are factors that indicate that such an alternative use exists which is physically possible, legally permissible and financially feasible to access.

Further information about the valuation of the estate is provided in note 18 of these financial statements.

The Group estimates the useful economic life and residual value of property, plant and equipment and these estimates influence the depreciation charged each year. For details of these estimates, see the detailed accounting policy for property, plant and equipment.

b) Testing goodwill for impairment

The Group annually tests whether goodwill has been impaired. Management makes judgements in calculating the recoverable amount based on value-in-use calculations which require estimating future cash flows and applying a suitable discount rate.

Details of the tests and carrying value of the asset are shown in note 13.

c) Taxation

Judgement is required when determining the provision for taxes as the tax treatment of some transactions cannot be finally determined until a formal resolution has been reached with the tax authorities. Tax benefits are not recognised unless it is probable that the benefit will be obtained. Tax provisions are made if it is expected that a liability will arise. The Group reviews each significant tax liability or benefit to assess the appropriate accounting treatment.

d) Finance costs

When borrowings are refinanced with substantially the same lender, the Group uses judgement when reviewing whether the arrangement constitutes an extinguishment of the original financial liability and the recognition of a new financial liability or a modification of the terms of the existing financial liability. As

3. Accounting policies (Continued)

described in note 23, the Group completed a partial refinancing of the 2018 corporate bond during the current year. Judgement has therefore been applied in allocating the total costs of this exercise to the extinguishment of the existing bonds and the net debt instrument having given consideration to the terms of the refinanced borrowings.

e) Related party transactions

The Group uses judgement when concluding that transactions with related parties of minority interests are not material for disclosure. This judgement is made based on the value of transactions.

4. Segmental analysis

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

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

This results in three reportable segments being:

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

As the Group progresses with the reallocation of pubs between these segments it is now considered appropriate to disclose segmental information.

The CODM reviews the financial results by segment to underlying EBITDA and this therefore provides the basis for the disclosures below. The prior year results have also been analysed on a consistent basis to show comparative information for the reportable segments. Inter-segment revenues and costs are eliminated upon consolidation and the segmental note is presented net of these eliminations.

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

Year ended 30 September 2017	Publican Partnerships £m	Commercial Properties £m	Managed £m	Central £m	Total £m
Revenue	**547**	**21**	**80**	**—**	**648**
Operating costs before depreciation and amortisation	**(222)**	**—**	**(67)**	**(72)**	**(361)**
Underlying EBITDA	**325**	**21**	**13**	**(72)**	**287**
Non-underlying operating costs before depreciation and amortisation					**(9)**
Depreciation and amortisation					**(17)**
Movements in valuation of the estate and related assets					**(24)**
Net finance costs					**(179)**
Profit before tax					**58**
Taxation					**(4)**
Profit after tax					**54**

4. Segmental analysis (Continued)

Year ended 30 September 2016	Publican Partnerships £m	Commercial Properties £m	Managed £m	Central £m	Total £m
Revenue	588	16	28	—	632
Operating costs before depreciation and amortisation	(245)	(1)	(24)	(70)	(340)
Underlying EBITDA	343	15	4	(70)	292
Non-underlying operating costs before depreciation and amortisation					(3)
Depreciation and amortisation					(16)
Net loss on sale of property					(4)
Movements in valuation of the estate and related assets					(33)
Net finance costs					(161)
Profit before tax					75
Taxation					(4)
Profit after tax					71

5. Non-underlying items

The Group uses adjusted figures as key performance measures in addition to those reported under IFRS as management believe these measures better reflect the ongoing trading transactions and enable better comparability and accountability for performance for them and other stakeholders. Adjusted figures exclude non-underlying items which comprise exceptional items, non-recurring items and other adjusting items.

Non-underlying items include reorganisation costs, assignment premiums paid to a publican in order to take the assignment of a lease or to break a lease at any point other than at renewal during the period of our strategic review, the profit/loss on sale of property, the movements in valuation of the estate and costs incurred in respect of refinancing.

The adjusted figures are derived from the reported figures under IFRS as follows:

	2017			2016		
	Underlying items £m	Non-underlying items £m	Total £m	Underlying items £m	Non-underlying items £m	Total £m
Revenue	**648**	**—**	**648**	632	—	632
Operating costs before depreciation and amortisation	**(361)**	**(9)**	**(370)**	(340)	(3)	(343)
EBITDA	**287**	**(9)**	**278**	292	(3)	289
Depreciation and amortisation	**(17)**	**—**	**(17)**	(16)	—	(16)
Operating profit/(loss)	**270**	**(9)**	**261**	276	(3)	273
Profit on sale of property	**—**	**10**	**10**	—	5	5
Goodwill allocated to disposals	**—**	**(10)**	**(10)**	—	(9)	(9)
Net loss on sale of property	**—**	**—**	**—**	—	(4)	(4)
Movements in valuation of the estate and related assets	**—**	**(24)**	**(24)**	—	(33)	(33)
Finance costs	**(149)**	**(30)**	**(179)**	(154)	(7)	(161)
Profit/(loss) before tax	**121**	**(63)**	**58**	122	(47)	75
Taxation	**(22)**	**18**	**(4)**	(25)	21	(4)
Profit/(loss) after tax attributable to members of the Parent Company	**99**	**(45)**	**54**	97	(26)	71
Earnings per share						
Underlying	**20.5p**			19.6p		
Underlying diluted	**19.5p**			18.5p		

5. Non-underlying items (Continued)

Those items identified as non-underlying are explained further below:

a) Operating costs before depreciation and amortisation

A charge of £9 million (2016: £3 million) has been incurred in respect of assignment premiums paid and reorganisation costs.

During the period of our strategic change, assignment premiums paid to a publican in order to take the assignment of a lease or to break a lease at any point other than at renewal would be treated as non-underlying. These costs have been incurred following the strategic review and are not considered to be part of the underlying business as they are not expected to recur once the strategic realignment of properties has been completed. This period will allow a full cycle of rent reviews over which time the Group will assess the optimal strategic location for each asset which may include the payment of an assignment premium to allow the Group access to the property. This resulted in a non-underlying charge for the year ended 30 September 2017 of £6 million (2016: £3 million).

In addition, during the year, £3 million (2016: £nil) of restructuring costs were incurred as we have reorganised the business to meet our future needs and these charges have been allocated to non-underlying as they are one-off in nature.

A tax credit of £2 million (2016: £nil) has been recognised in relation to these costs.

b) Net loss on sale of property

	2017	2016
	£m	£m
Profit on sale of property, plant and equipment	**13**	10
Loss on sale of property, plant and equipment	**(5)**	(4)
Net profit on sale of property, plant and equipment	**8**	6
Profit on sale of investment property	**3**	—
Loss on sale of investment property	**(1)**	(1)
Net profit/(loss) on sale of investment property	**2**	(1)
Net profit on sale of property before goodwill allocation	**10**	5
Goodwill allocated to disposals	**(10)**	(9)
Net loss on sale of property	**—**	(4)

The tax impact of the sale of properties and other assets is set out in note 11.

During the year 224 properties (2016: 226 properties) and various other plots of land with a book value of £86 million (2016: £91 million) were disposed of generating gross proceeds of £109 million (2016: £104 million) which, after taking account of disposal costs resulted in an overall profit of £10 million (2016: £5 million).

Included within the total profits on sale of property above of £16 million, £11 million related to 21 properties and various plots of land with a 'special interest' value to particular buyers. The remaining profits of £5 million arose on 98 properties sold at an average profit of £51,000. The total losses on sale of property above of £6 million related to 105 properties sold at an average loss of £57,000.

In accordance with IAS 36 purchased goodwill is allocated to operations disposed of. Accordingly, goodwill of £10 million (2016: £9 million) has been allocated to the 224 properties (2016: 226 properties) disposed of during the year.

c) Movements in valuation of the estate and related assets

	2017	2016
	£m	£m
Movement in property, plant and equipment from revaluation of the estate (see note 15)	**(11)**	(19)
Movement in investment property from revaluation of the estate (see note 16)	**7**	1
Revaluation of non-current assets held for sale	**(20)**	(15)
	(24)	(33)

5. Non-underlying items (Continued)

There is no current tax expense associated with these movements. A deferred tax credit of £4 million (2016: £7 million) arises as a result of the revaluation and write down of these properties (see note 27).

Of the £20 million revaluation of non-current assets held for sale (2016: £15 million), £11 million (2016: £6 million) related to properties held in non-current assets held for sale at the year end.

d) Finance costs

On 24 October 2016 the Group replaced its existing £138 million revolving credit facility (RCF) with a new £120 million facility. Furthermore, on 14 March 2017 the £120 million non-amortising RCF was increased in size to £140 million on the same terms. The facility is available through to August 2020 and attracts an interest rate of 3% above LIBOR applicable to any drawn portion of the facility.

On 4 November 2016 the Group completed a partial refinancing of the 2018 corporate bond. The partial refinancing resulted in a lower interest coupon and an extended debt maturity. Prior to the refinancing £350.5 million of 2018 secured corporate bonds were outstanding with a coupon of 6.5%. The Group received and accepted tender instructions for £250 million of these bonds at a cash purchase price of 111% of their principal amount. In connection with this partial refinancing the Group issued new £250 million secured corporate bonds, due in February 2022, at a coupon of 6.375%, resulting in a reduction of the corporate bonds maturing in 2018 to £100.5 million. The security required by the new issue remains substantially the same terms as the 2018 bonds.

The total cash outflow arising from the bank and bond refinancing was £32 million, being £28 million in respect of the repurchase premium on the extinguished bond, which has been charged to the income statement, and total fees and disbursements of £4 million, of which £2 million has been charged to the income statement and £2 million arising on the new bank facility has been deferred over the life of the new debt instrument. Furthermore on 19 September 2017 the Group signed a new £50 million term loan facility, which is undrawn as at 30 September 2017, available for drawing until December 2018 with repayment of the amount drawn due by July 2020 which resulted in £1 million of fees that have been deferred over the life of the new facility.

During the prior year the Group completed a full strategic and legal review of our capital structure to ensure that it did not constrain our ability to execute our operational strategy. A significant output of this review was the consent solicitation approved by the noteholders of the Unique securitisation voting in favour of proposals to amend certain aspects of the documentation to permit increased numbers of managed houses within the securitisation. Of the total fees incurred in this strategic review, £7 million was recognised in the income statement and £7 million was deferred over the remaining life of the Unique securitised notes.

A tax credit of £6 million (2016: £1 million) has been recognised on the non-underlying finance costs.

6. Revenue

	2017	**2016**
	£m	**£m**
Drink revenue	**473**	459
Rent revenue	**154**	159
Food revenue	**9**	3
Revenue from amusement and other machines	**11**	11
Other revenue	**1**	—
	648	632

7. Operating profit

Operating profit is stated after charging:

	2017	2016
	£m	£m
Cost of inventories	**243**	250
Other direct selling costs	**6**	6
Managed house running costs	**38**	14
Operating lease rentals	**23**	23
Other property costs	**9**	7
Administrative charges	**42**	40
Non-underlying administrative charges	**9**	3
	370	343
Depreciation and amortisation	**17**	16
	387	359

8. Auditor's remuneration

(This note is shown rounded to the nearest £000)

A description of the work of the Audit Committee is set out in the Audit Committee report on pages 51 to 56 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor.

	2017	2016
	£000	£000
Group audit fees	**189**	173
Audit fees in respect of subsidiaries	**76**	72
Audit related assurance services	**25**	25
Other assurance services	**54**	173
Non-audit services	**16**	26
	360	469

Of the non-audit assurance related fees and non-audit services above of £70,000 (2016: £199,000), £70,000 (2016: £199,000) represents work required to be performed by the auditor under law, regulation or the terms of the Group's financing arrangements. Excluding these amounts, the ratio of non-audit fees to audit fees was nil (2016: nil). Within other assurance services above is £54,000 in relation to assurance reporting as part of the issuance of a new corporate bond (2016: £173,000 in relation to assurance reporting as part of the bondholder consent solicitation).

Group audit fees include £154,000 (2016: £152,000) paid to the auditor for the audit of the Parent Company. Fees paid to the auditor in respect of non-audit services provided to the Parent Company are not required to be disclosed because the Group financial statements are only required to disclose such fees on a consolidated basis.

9. Staff costs

	Group		Company	
	2017	2016	2017	2016
	£m	£m	£m	£m
Wages and salaries	**44**	35	**33**	31
Social security costs	**5**	4	**4**	3
Other pension costs	**2**	2	**2**	2
	51	41	**39**	36

Included in wages and salaries is an expense relating to share-based payments of £3 million (2016: £2 million). All of this expense arises from transactions accounted for as equity-settled share-based payments (see note 30).

Other pension costs represents payments made into employees' individual defined contribution plans.

9. Staff costs (Continued)

The average monthly number of employees comprised:

	Group 2017	Group 2016	Company 2017	Company 2016
	No.	No.	No.	No.
Operations staff	**1,058**	489	**259**	264
Administration staff	**311**	300	**311**	300
	1,369	789	**570**	564

Directors' remuneration is summarised below to the nearest £000 with full detail given in the directors' remuneration report.

	2017	2016
	£000	£000
Directors' remuneration*	**2,252**	2,272
Executive directors' pensions	**218**	214
Share-based payments†	**854**	729

* Comprises fees, salary, benefits and performance-related bonus.
† Fair value of share-based payments charged to the income statement during the year.

In addition to the above, gains arising on LTIPs that have vested and been exercised in the year by executive directors amounted to £518,000 (2016: £449,000).

10. Finance costs

	2017	2016
	£m	£m
Bank borrowings	**4**	4
Corporate bonds/securitised bonds	**144**	149
Other interest payable and finance costs	**1**	2
Interest receivable	**—**	(1)
Total underlying finance costs	**149**	154
Non-underlying finance costs:		
Other interest payable and finance costs	**30**	7
Total non-underlying finance costs	**30**	7
Total net finance costs	**179**	161

11. Taxation

a) Total tax expense recognised in the income statement

	2017 Underlying items	2017 Non-underlying items	2017 Total	2016 Underlying items	2016 Non-underlying items	2016 Total
	£m	£m	£m	£m	£m	£m
Current tax						
UK corporation tax	**20**	**(7)**	**13**	21	(3)	18
Adjustments in respect of prior years	**(2)**	**—**	**(2)**	(2)	—	(2)
Total current tax	**18**	**(7)**	**11**	19	(3)	16
Deferred tax						
Origination and reversal of temporary differences	**4**	**(12)**	**(8)**	5	(18)	(13)
Adjustments in respect of prior years	**—**	**1**	**1**	1	—	1
Total deferred tax	**4**	**(11)**	**(7)**	6	(18)	(12)
Taxation	**22**	**(18)**	**4**	25	(21)	4

11. Taxation (Continued)

b) Tax charge reconciliation

	2017 Underlying items	2017 Non-underlying items	2017 Total	2016 Underlying items	2016 Non-underlying items	2016 Total
	£m	£m	£m	£m	£m	£m
Profit/(loss) before tax	**121**	**(63)**	**58**	122	(47)	75
Profit/(loss) on ordinary activities before tax at 19.5% (2016: 20.0%)	**24**	**(12)**	**12**	24	(9)	15
Effects of:						
Non taxable (income)/expenses not deductible for tax purposes	**—**	**(3)**	**(3)**	2	(2)	—
Movement in the deferred tax liability for retained properties due to indexation*	**—**	**(4)**	**(4)**	—	(1)	(1)
Adjustments in respect of prior years	**(2)**	**1**	**(1)**	(1)	—	(1)
Restatement of deferred tax liability for change in UK tax rate	**—**	**—**	**—**	—	(9)	(9)
Total tax charge/(credit) in the income statement	**22**	**(18)**	**4**	25	(21)	4

* On transition to IFRS under IAS 12, a deferred tax liability was recognised on the balance sheet relating to the revaluation of the estate and gains previously rolled over, or due to be rolled over into other assets. The deferred tax liability that would have been in place at the time of business combinations that have occurred since 1 January 1999 resulted in the recognition of additional goodwill of £330 million as the fair value of the net assets acquired had been reduced. As this pre-acquisition liability changes due to capital gains indexation relief and disposals, the movement has been recognised in the income statement. The non-underlying indexation credit for the year ended 30 September 2017 is £4 million (2016: £1 million). This has been classed as a non-underlying tax item due to its size and because it does not relate to any income or expense recognised in the income statement in the same period. In the prior year there was an additional non-underlying tax credit of £9 million relating to the effect of changes in the UK tax rate from 20% to 17% which had been enacted during the year.

c) Deferred tax recognised in the income statement

	2017 Underlying items	2017 Non-underlying items	2017 Total	2016 Underlying items	2016 Non-underlying items	2016 Total
	£m	£m	£m	£m	£m	£m
Temporary differences	**1**	**—**	**1**	2	—	2
Accelerated capital allowances	**3**	**(4)**	**(1)**	3	(4)	(1)
Deferred tax on the movement in valuation of the estate*	**—**	**(4)**	**(4)**	—	(4)	(4)
Movement in the deferred tax liability for retained properties due to indexation	**—**	**(4)**	**(4)**	—	(1)	(1)
Adjustments in respect of prior years	**—**	**1**	**1**	1	—	1
Restatement of deferred tax liability for change in UK tax rate	**—**	**—**	**—**	—	(9)	(9)
	4	**(11)**	**(7)**	6	(18)	(12)

* The £4 million (2016: £4 million) deferred tax credit on the movement in valuation of the pub estate includes a credit of £4 million (2016: £7 million), being the tax effect of the £24 million (2016: £33 million) non-underlying movement in the valuation of the pub estate and related assets in the income statement (see note 5), a tax charge of £2 million (2016: £2 million) in respect of properties disposed, and a net £2 million credit (2016: £1 million charge) for other tax differences based on a tax rate of 17% (2016: 20%).

11. Taxation (Continued)

d) Tax recognised directly in other comprehensive income

	2017	2016
	£m	£m
Movement in deferred tax liability related to revaluation of the estate	**3**	—
Rate change adjustment	**—**	24
Tax credit in other comprehensive income	**3**	24

The movement in the deferred tax liability relating to revaluation of property and rolled over gains is calculated as follows:

	2017	2016
	£m	£m
Tax effect of revaluation of property and properties sold and awaiting sale	**(1)**	(4)
Movement in indexation during the year	**4**	4
Total movement as above	**3**	—

12. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders for the year divided by the weighted average number of equity shares in issue during the year after excluding shares held by trusts relating to employee share options and shares held in treasury.

Underlying earnings per share, which the directors believe reflects the underlying performance of the Group, is based on profit attributable to ordinary shareholders adjusted for the effects of non-underlying items net of tax, divided by the weighted average number of equity shares in issue during the year after excluding shares held by trusts relating to employee share options and shares held in treasury.

The dilution adjustments for share options and the convertible bonds are reviewed independently and where they are dilutive to the calculation of basic diluted earnings per share they are included in the calculation of both basic diluted and underlying diluted earnings per share.

For the year ended 30 September 2017, the adjustment for share options is assessed as being dilutive (2016: dilutive) which has resulted in an adjustment to the weighted average number of equity shares in issue during the year of 3.5 million shares (2016: 7.3 million shares).

For the year ended 30 September 2017, the adjustment for the convertible bonds is assessed as being dilutive (2016: dilutive) which has resulted in an adjustment to profit in the calculation of diluted earnings per share of £5.5 million (2016: £5.2 million) for the post tax interest cost associated with the convertible bonds and an adjustment to the weighted average number of equity shares in issue during the year of 50.8 million shares (2016: 50.8 million shares).

	2017		2016	
	Earnings	Per share amount	Earnings	Per share amount
	£m	p	£m	p
Basic earnings per share	**53.8**	**11.2**	70.7	14.2
Diluted earnings per share	**59.3**	**11.1**	75.9	13.7
Underlying earnings per share	**98.9**	**20.5**	97.4	19.6
Underlying diluted earnings per share	**104.4**	**19.5**	102.6	18.5

	2017	2016
	m	m
Weighted average number of shares	**481.9**	496.8
Dilutive share options	**3.5**	7.3
Dilutive convertible loan note shares	**50.8**	50.8
Diluted weighted average number of shares	**536.2**	554.9

13. Goodwill

	2017	2016
	£m	£m
At 1 October	**321**	330
Goodwill arising on new business combinations	**1**	—
Allocated to disposals	**(10)**	(9)
At 30 September	**312**	321

Business combination

During the year the Group purchased 51% of the share capital of Bestplace Limited, a small boutique hostel operator in London, for consideration of £1 million. Goodwill of £1 million has arisen on the transaction being the excess of the consideration over the fair value of the tangible and intangible assets and liabilities, and this goodwill has been allocated to the managed segment.

Allocation to disposals

In accordance with IAS 36 goodwill is allocated to operations disposed of and accordingly, goodwill of £10 million (2016: £9 million) has been allocated to the 224 pubs (2016: 226 pubs) disposed of during the year.

Impairment testing

Goodwill acquired via business combinations is tested annually for impairment. At 30 September 2017 the goodwill has been allocated to the operating segments described in note 4. Within these segments the goodwill is tested for impairment by comparing the recoverable amount of each segment to the carrying amount. The recoverable amount is the higher of fair value less costs of disposal and value in use.

The carrying amount of goodwill allocated to the Publican Partnerships segment was £271 million (2016: £296 million) with the balance allocated to the Commercial Properties segment of £24 million (2016: £18 million) and Managed segment of £17 million (2016: £7 million).

Within each segment value in use is calculated using budgeted EBITDA and forecasts of cash flows over a three year period, as prepared for the Board, adjusted to reflect the current segmentation of the estate. The three year cash flows continue to be risk adjusted to reflect a conservative outlook and are adjusted to reflect the forecast level of disposals. The key assumptions in these estimates are trading margin, rent projections and levels of working capital required to support trading. Key assumptions have been assigned values by management using estimates based on past experience and expectations of future changes in the market. These assumptions have been reviewed by the Board and are believed to be reasonable. Cash flows beyond three years are extrapolated using a 2% growth rate in operating income (2016: 2%) which was selected as prudently below the Group's estimate of the long-term average growth rate. The key driver to maintaining the growth rate is management's focus on selecting and supporting the best publicans, whilst meeting the challenges of changing consumer demand. The forecast cash flows are then discounted to give a value in use.

The discount rate used is based on the Group weighted average cost of capital (WACC), which has been risk adjusted to reflect current market factors which have not already been captured within the cash flows. In making this adjustment to the Group WACC, management have risk adjusted the cost of debt and the cost of equity by using an average of the highest four market risk premiums and Company betas obtained from five advisers at the year end date. The cost of equity has been further inflated by using a theoretical share price derived from peer group data. The pre-tax risk adjusted discount rate used in the testing at 30 September 2017 was 7.8% (2016: 8.0%), this has been reviewed and considered appropriate for each operating segment as risk factors are considered to be similar.

As at 30 September 2017, the headroom on the impairment test is £717 million (2016: £686 million) for the Publican Partnerships segment, £74 million (2016: £58 million) for the Commercial Properties segment and £254 million (2016: £101 million) for the Managed segment. The pre-tax adjusted discount rate could increase to 9.1% (2016: 9.3%) for the Publican Partnerships segment, 9.2% (2016: 9.7%) for the

13. Goodwill (Continued)

Commercial Properties segment and 11.0% (2016: 12.2%) for the Managed segment before any impairment would be required. Management have considered the volatility in the current economic climate within the risk adjusted cash flows and the growth rate of any cash flows beyond the budget period would need to fall to 0.5% (2016: 0.6%) for the Publican Partnerships segment, 0.4% (2016: 0.2%) for the Commercial Properties segment and reduced to nil% (2016: nil%) for the Managed segment before any impairment would be required. There is no impairment to goodwill in the current or prior period.

14. Intangible assets: operating lease premiums

	Group		Company	
	2017	**2016**	**2017**	**2016**
	£m	**£m**	**£m**	**£m**
Cost:				
At 1 October	**14**	15	**7**	7
Disposals	**—**	(1)	**—**	—
At 30 September	**14**	14	**7**	7
Amortisation:				
At 1 October and 30 September	**5**	5	**3**	3
Net book value:				
At 30 September	**9**	9	**4**	4
At 1 October	**9**	10	**4**	4

Lease premiums are amortised on a straight line basis over the remaining life of the lease. The remaining operating lease terms vary from 1 to 93 years.

There are 48 properties within the Group and 28 properties within the Parent Company attracting operating lease premiums in 2017 (2016: 52 properties in the Group and 31 properties in the Parent Company).

15. Property, plant and equipment

The following note has been restated to show the reclassification of those properties leased on commercial terms and included in the Commercial Property segment from property, plant and equipment to investment property.

	Group			
	Licensed land and buildings	Landlord's fixtures and fittings	Other assets	Total
	£m	£m	£m	£m
Cost or valuation				
At 1 October 2015	3,308	257	39	3,604
Additions	39	37	5	81
Revaluation:				
—Recognised in the statement of comprehensive income	18	—	—	18
—Recognised in the income statement	(19)	—	—	(19)
Revaluation of assets on transfer to non-current assets held for sale:				
—Recognised in the statement of comprehensive income	(2)	—	—	(2)
—Recognised in the income statement	(16)	—	—	(16)
Net transfers to non-current assets held for sale	(51)	(9)	—	(60)
Net transfers to investment property	(71)	(4)	—	(75)
Disposals	—	(9)	(2)	(11)
At 1 October 2016	**3,206**	**272**	**42**	**3,520**
Additions	**41**	**42**	**7**	**90**
Revaluation:				
—Recognised in the statement of comprehensive income	**11**	**—**	**—**	**11**
—Recognised in the income statement	**(11)**	**—**	**—**	**(11)**
Revaluation of assets on transfer to investment property:				
—Recognised in the statement of comprehensive income	**1**	**—**	**—**	**1**
Net transfers to investment property	**(79)**	**(8)**	**—**	**(87)**
Revaluation of assets on transfer to non-current assets held for sale:				
—Recognised in the statement of comprehensive income	**(6)**	**—**	**—**	**(6)**
—Recognised in the income statement	**(20)**	**—**	**—**	**(20)**
Net transfers to non-current assets held for sale	**(60)**	**(14)**	**—**	**(74)**
Disposals	**—**	**(7)**	**(2)**	**(9)**
At 30 September 2017	**3,083**	**285**	**47**	**3,415**
Depreciation				
At 1 October 2015	15	49	14	78
Net transfers to investment property	—	(1)	—	(1)
Charge for the year	1*	12	3	16
Net transfers to non-current assets held for sale	(1)	(2)	—	(3)
Disposals	—	(4)	—	(4)
At 1 October 2016	**15**	**54**	**17**	**86**
Revaluation on transfer to investment property	**—**	**(2)**	**—**	**(2)**
Charge for the year	**2***	**12**	**3**	**17**
Net transfers to non-current assets held for sale	**(1)**	**(3)**	**—**	**(4)**
Disposals	**—**	**(2)**	**(2)**	**(4)**
At 30 September 2017	**16**	**59**	**18**	**93**
Net book value				
At 30 September 2017	**3,067**	**226**	**29**	**3,322**
At 30 September 2016	3,191	218	25	3,434

* Relates to finance lease amortisation

15. Property, plant and equipment (Continued)

	Company			
	Licensed land and buildings	Landlord's fixtures and fittings	Other assets	Total
	£m	£m	£m	£m
Cost or valuation				
At 1 October 2015	1,691	162	35	1,888
Additions	49	23	5	77
Revaluation:				
—Recognised in the statement of comprehensive income	2	—	—	2
—Recognised in the income statement	(10)	—	—	(10)
Revaluation of assets on transfer to non-current assets held for sale:				
—Recognised in the statement of comprehensive income	(2)	—	—	(2)
—Recognised in the income statement	(11)	—	—	(11)
Net transfers to non-current assets held for sale	(28)	(6)	—	(34)
Net transfers to investment property	(36)	(3)	—	(39)
Disposals	—	(6)	(1)	(7)
At 1 October 2016	**1,655**	**170**	**39**	**1,864**
Additions	**36**	**21**	**7**	**64**
Revaluation:				
—Recognised in the statement of comprehensive income	**(1)**	**—**	**—**	**(1)**
—Recognised in the income statement	**(15)**	**—**	**—**	**(15)**
Revaluation of assets on transfer to non-current assets held for sale:				
—Recognised in the statement of comprehensive income	**(6)**	**—**	**—**	**(6)**
—Recognised in the income statement	**(13)**	**—**	**—**	**(13)**
Net transfers to non-current assets held for sale	**(41)**	**(11)**	**—**	**(52)**
Net transfers to investment property	**(49)**	**(5)**	**—**	**(54)**
Disposals	**—**	**(4)**	**(2)**	**(6)**
At 30 September 2017	**1,566**	**171**	**44**	**1,781**
Depreciation				
At 1 October 2015	5	30	14	49
Net transfers to investment property	—	(1)	—	(1)
Charge for the year	1*	6	4	11
Net transfers to non-current assets held for sale	(1)	—	—	(1)
Disposals	—	(2)	(1)	(3)
At 1 October 2016	**5**	**33**	**17**	**55**
Net transfers to investment property	**—**	**(1)**	**—**	**(1)**
Charge for the year	**1***	**6**	**3**	**10**
Net transfers to non-current assets held for sale	**—**	**(3)**	**—**	**(3)**
Disposals	**—**	**—**	**(2)**	**(2)**
At 30 September 2017	**6**	**35**	**18**	**59**
Net book value				
At 30 September 2017	**1,560**	**136**	**26**	**1,722**
At 30 September 2016	1,650	137	22	1,809

* Relates to finance lease amortisation

15. Property, plant and equipment (Continued)

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

	Group Licensed land and buildings	Company Licensed land and buildings
	£m	£m
At 30 September 2017		
Cost	**2,602**	**1,237**
Accumulated depreciation	**(30)**	**(19)**
Net book value	**2,572**	**1,218**
At 30 September 2016		
Cost	2,732	1,308
Accumulated depreciation	(32)	(20)
Net book value	2,700	1,288

Within the Group the carrying value of property held under finance leases at 30 September 2017 was £100 million (2016: £106 million). Additions during the year include £3 million to property held under finance leases (2016: £3 million). Within the Parent Company the carrying value of property held under finance leases at 30 September 2017 was £30 million (2016: £39 million). Additions during the year include £1 million to property held under finance leases (2016: £1 million).

At 30 September 2017, the Group had entered into contractual commitments to purchase £6 million (2016: £5 million) of property, plant and equipment. At 30 September 2017, the Parent Company had entered into contractual commitments to purchase £3 million (2016: £2 million) of property, plant and equipment.

16. Investment property

The Group leases some properties on commercial leases within the Commercial Properties segment, the commercial terms of these leases result in the assets meeting the criteria of investment property. As this segment expands the Group recognises that the value attributed to these assets is now a material balance and has consequently reclassified this balance from property, plant and equipment to investment property in the balance sheet.

Although the balance sheet amounts have been reclassified for the comparative period, the impact on the income statement was not assessed as material and it has therefore not been restated.

	Group	Company
	£m	£m
At 1 October 2015	137	59
Net transfers from property, plant and equipment	74	38
Revaluation:		
—Recognised in the statement of comprehensive income	3	—
—Recognised in the income statement	1	—
Revaluation of assets on transfer to non-current assets held for sale:		
—Recognised in the statement of comprehensive income	1	—
—Recognised in the income statement	1	1
Net transfers to non-current assets held for sale	(21)	(16)
At 1 October 2016	**196**	**82**
Additions	**3**	**—**
Net transfers from property, plant and equipment	**85**	**53**
Revaluation	**7**	**3**
Net transfers to non-current assets held for sale	**(21)**	**(19)**
At 30 September 2017	**270**	**119**

Within the Group the carrying value of property held under finance leases at 30 September 2017 was £14 million (2016: £12 million). Additions during the year include £nil to property held under finance leases (2016: £nil). Within the Parent Company the carrying value of property held under finance leases at 30 September 2017 was £9 million (2016: £7 million). Additions during the year include £nil to property held under finance leases (2016: £nil).

17. Non-current assets held for sale

	Group		Company	
	2017	2016	2017	2016
	£m	£m	£m	£m
At 1 October	**21**	33	**10**	13
Net transfer from property, plant and equipment (see note 15)	**70**	57	**49**	33
Net transfer from investment property (see note 16)	**21**	21	**19**	16
Write down to fair value less costs to dispose	**(1)**	(1)	**—**	—
Disposals	**(86)**	(89)	**(66)**	(52)
At 30 September	**25**	21	**12**	10
Representing:				
Property, plant and equipment	**24**	21	**11**	10
Investment property	**1**	—	**1**	—
	25	21	**12**	10

Non-current assets held for sale comprises properties that have been identified by the Group for disposal as part of the continued disposal programme. The sale of all assets within this category is expected to be completed within one year of the balance sheet date.

At the end of the year non-current assets held for sale in the Group includes 85 properties (2016: 68 properties). Within the Group a balance of £2 million (2016: £2 million) in relation to these properties is held within the revaluation reserve representing revaluation surpluses.

17. Non-current assets held for sale (Continued)

At the end of the year non-current assets held for sale in the Parent Company includes 40 properties which are expected to be sold within the next year (2016: 29 properties). Within the Parent Company a balance of £1 million (2016: £2 million) in relation to these properties is held within the revaluation reserve representing revaluation surpluses.

18. Property fair value measurements

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

Revaluation of property, plant and equipment

Valuations are carried out on an annual basis at each year end date. With the exception of properties identified for disposal and transferred to non-current assets held for sale, the Group's properties were revalued as at 30 September 2017 by GVA Grimley Limited or Colliers International Property Advisers UK LLP, independent Chartered Surveyors, or by the internal Asset and Valuation Director, Simon Millar MRICS, Chartered Surveyor. For further analysis of the pubs valued by valuer see table on page 104.

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

Property assets held in property, plant and equipment were valued using fair maintainable trade income (FMT) capitalised at an appropriate rate of return (as defined within RICS Valuation—Global Standards 2017) or an equivalent multiple. This method of valuation involves making an assessment of the fair maintainable rent, wholesale and machine income that can be generated from the property assuming they are run by a reasonably efficient operator, taking into account future trading potential. This assessment of profit is then capitalised at an appropriate multiple to reflect the risks and rewards of the property. In determining the multiple to use, the valuers consider evidence of comparable market transactions. The resulting fair value of the pub represents the land and buildings and any fixed landlords' fixtures and fittings. The valuation of the managed pub assets is prepared using a consistent approach that effectively capitalises the net income attributable to the Group from operating the pub at an appropriate multiple.

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

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

18. Property fair value measurements (Continued)

The impact of the Group revaluation is as follows:

	2017 £m	2016 £m
Income statement		
Revaluation loss charged as an impairment	**(47)**	(54)
Reversal of past impairments	**36**	35
Gains on revaluation of investment property	**9**	3
Losses on revaluation of investment property	**(2)**	(2)
	(4)	(18)

	2017 £m	2016 £m
Revaluation reserve		
Unrealised surplus	**69**	75
Reversal of past revaluation surplus	**(58)**	(57)
Revaluation of investment property	**—**	3
	11	21

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

	FMT income bandings					
	Group					
		Multiple applied to FMT				
Number of assets—within property, plant and equipment	**Total number**	**over 12 times**	**10 - 12 times**	**8 - 10 times**	**6 - 8 times**	**under 6 times**
At 30 September 2016						
more than £90,000 per annum	1,285	77	514	587	81	26
£60,000 to £90,000 per annum	1,853	82	670	866	198	37
less than £60,000 per annum	1,217	49	358	567	184	59
	4,355	208	1,542	2,020	463	122
At 30 September 2017						
more than £90,000 per annum	**1,378**	**84**	**483**	**656**	**123**	**32**
£60,000 to £90,000 per annum	**1,682**	**73**	**579**	**804**	**180**	**46**
less than £60,000 per annum	**1,008**	**43**	**304**	**483**	**139**	**39**
	4,068	**200**	**1,366**	**1,943**	**442**	**117**

18. Property fair value measurements (Continued)

Number of assets—within non-current assets held for sale	FMT income bandings					
At 30 September 2016						
more than £90,000 per annum	1	—	1	—	—	—
£60,000 to £90,000 per annum	1	—	—	1	—	—
less than £60,000 per annum	66	23	2	10	7	24
	68	23	3	11	7	24
At 30 September 2017						
more than £90,000 per annum	**—**	**—**	**—**	**—**	**—**	**—**
£60,000 to £90,000 per annum	**2**	**—**	**1**	**—**	**—**	**1**
less than £60,000 per annum	**83**	**28**	**8**	**4**	**7**	**36**
	85	**28**	**9**	**4**	**7**	**37**

	Income bandings					
	Multiple applied to income					
Number of assets—within investment property	**Total number**	**over 16 times**	**14 - 16 times**	**12 - 14 times**	**10 - 12 times**	**under 10 times**
At 30 September 2016						
more than £90,000 per annum	47	2	12	21	10	2
£60,000 to £90,000 per annum	58	10	12	17	11	8
less than £60,000 per annum	143	13	20	37	40	33
	248	25	44	75	61	43
At 30 September 2017						
more than £90,000 per annum	**67**	**5**	**9**	**40**	**8**	**5**
£60,000 to £90,000 per annum	**93**	**9**	**17**	**40**	**17**	**10**
less than £60,000 per annum	**146**	**8**	**20**	**51**	**42**	**25**
	306	**22**	**46**	**131**	**67**	**40**

	FMT income bandings					
	Company					
	Multiple applied to FMT					
Number of assets—within property, plant and equipment	**Total number**	**over 12 times**	**10 - 12 times**	**8 - 10 times**	**6 - 8 times**	**under 6 times**
At 30 September 2016						
more than £90,000 per annum	623	12	329	246	26	10
£60,000 to £90,000 per annum	999	20	517	396	55	11
less than £60,000 per annum	638	20	279	255	67	17
	2,260	52	1,125	897	148	38
At 30 September 2017						
more than £90,000 per annum	**664**	**16**	**302**	**295**	**44**	**7**
£60,000 to £90,000 per annum	**869**	**20**	**426**	**362**	**43**	**18**
less than £60,000 per annum	**551**	**20**	**245**	**223**	**50**	**13**
	2,084	**56**	**973**	**880**	**137**	**38**

18. Property fair value measurements (Continued)

Number of assets—within non-current assets held for sale	FMT income bandings					
At 30 September 2016						
more than £90,000 per annum	1	—	1	—	—	—
£60,000 to £90,000 per annum	—	—	—	—	—	—
less than £60,000 per annum	28	11	2	6	3	6
	29	11	3	6	3	6
At 30 September 2017						
more than £90,000 per annum	**—**	**—**	**—**	**—**	**—**	**—**
£60,000 to £90,000 per annum	**1**	**—**	**—**	**—**	**—**	**1**
less than £60,000 per annum	**39**	**15**	**5**	**1**	**2**	**16**
	40	**15**	**5**	**1**	**2**	**17**

	Income bandings					
		Multiple applied to income				
Number of assets—within investment property	Total number	over 16 times	14 - 16 times	12 - 14 times	10 - 12 times	under 10 times
At 30 September 2016						
more than £90,000 per annum	16	—	3	5	6	2
£60,000 to £90,000 per annum	34	6	5	10	7	6
less than £60,000 per annum	65	3	14	14	10	24
	115	9	22	29	23	32
At 30 September 2017						
more than £90,000 per annum	**26**	**—**	**—**	**16**	**5**	**5**
£60,000 to £90,000 per annum	**53**	**4**	**10**	**29**	**7**	**3**
less than £60,000 per annum	**71**	**1**	**10**	**27**	**15**	**18**
	150	**5**	**20**	**72**	**27**	**26**

Sensitivity analysis table

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

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

	Group		Company	
	2017	2016	2017	2016
	£m	£m	£m	£m
FMT sensitivity				
+ 2.5%	**89**	90	**46**	47
- 2.5%	**(89)**	(90)	**(46)**	(47)
Multiple sensitivity				
+ 0.25	**91**	92	**46**	47
- 0.25	**(91)**	(92)	**(46)**	(47)

The properties used as security for the corporate bonds in Ei Group plc have been valued by GVA Grimley Limited (1,984 properties) and all properties held by Unique Pub Properties Limited (Unique) have been valued by Colliers International Property Advisers UK LLP (2,140 properties). Colliers International Property Advisers UK LLP valued a further sample of properties held in the Parent Company (5 properties). The balance of the estate held in Ei Group plc (245 properties) have been valued by the internal Asset and Valuation Director using RICS valuation guidelines. The results of this internal valuation have been compared to that of the external valuers, to ensure that the results are consistent.

18. Property fair value measurements (Continued)

The following table provides a reconciliation of property numbers:

As at 30 September 2017	Property, plant and equipment	Investment property	Non-current assets held for sale*	Add operating leases ^	Total properties	Less non-viable and closed properties	Total trading properties
Properties valued by GVA Grimley Limited	**1,881**	**103**	**—**	**—**	**1,984**	**(3)**	**1,981**
Properties valued by Colliers International Property Advisers UK LLP	**3**	**2**	**—**	**—**	**5**	**—**	**5**
Properties valued internally	**200**	**45**	**—**	**—**	**245**	**(2)**	**243**
Other	**—**	**—**	**40**	**214**	**254**	**(21)**	**233**
Total Parent Company	**2,084**	**150**	**40**	**214**	**2,488**	**(26)**	**2,462**
Properties valued by Colliers International Property Advisers UK LLP	**1,984**	**156**	**—**	**—**	**2,140**	**—**	**2,140**
Other	**—**	**—**	**45**	**25**	**70**	**(34)**	**36**
Total Group	**4,068**	**306**	**85**	**239**	**4,698**	**(60)**	**4,638**

As at 30 September 2016	Property, plant and equipment	Investment property	Non-current assets held for sale*	Add operating leases ^	Total properties	Less non-viable and closed properties	Total trading properties
Properties valued by GVA Grimley Limited	1,970	49	—	—	2,019	(9)	2,010
Properties valued internally	290	66	—	—	356	(5)	351
Other	—	—	29	221	250	(17)	233
Total Parent Company	2,260	115	29	221	2,625	(31)	2,594
Properties valued by Colliers International Property Advisers UK LLP	2,095	133	—	—	2,228	(9)	2,219
Other	—	—	39	28	67	(30)	37
Total Group	4,355	248	68	249	4,920	(70)	4,850

* see note 17

^ not subject to valuation

19. Investments

	Company 2017 £m	Company 2016 £m
Cost or valuation		
At 1 October	**1,790**	1,835
Additions	**—**	250
Impairment	**—**	(295)
At 30 September	**1,790**	1,790

19. Investments (Continued)

During the prior year the Company carried out a reorganisation of intercompany balances which included the capitalisation of a balance of £250 million due from a subsidiary undertaking. Following the reorganisation, which included the receipt from this subsidiary of a £271 million dividend, this subsidiary had no assets and therefore the Company recognised an impairment of the same value.

At the year end, the Company has carried out an impairment review of its investment in the Unique sub-group which involved calculating a value in use using forecast cash flows discounted at 7.8% (2016: 8%) based on the Group's pre-tax risk adjusted WACC and a long-term growth rate appropriate to the Unique sub-group of 2.3% (2016: 2.5%). The recoverable amount of the Unique sub-group has been assessed as £1,828 million (2016: £1,716 million), resulting in headroom of £112 million (2016: an impairment of £45 million). As an assessment of theoretical sensitivities to this impairment review calculation, an increase of 0.25% in the discount rate used would result in an impairment of £15 million (2016: a further impairment of £121 million) or a decrease of 0.25% in the discount rate used would increase the headroom to £253 million (2016: remove the impairment and result in £89 million of total headroom). Similarly an increase of 0.25% in the long-term growth rate used would result in headroom of £267 million (2016: remove the impairment and result in £104 million of total headroom) or a decrease of 0.25% in the long-term growth rate used would result in an impairment of £28 million (2016: impairment of £136 million).

The Parent Company's subsidiaries are listed in note 33.

20. Inventories

	Group		Company	
	2017	2016	2017	2016
	£m	£m	£m	£m
Goods for resale	**2**	1	**—**	—

21. Trade and other receivables

Trade receivables due in more than one year represents money owed by publicans for the sale of fixtures and fittings on deferred terms and part of the balance is due in more than one year.

	Group		Company	
	2017	2016	2017	2016
	£m	£m	£m	£m
Trade receivables	**2**	3	**1**	1

Trade and other receivables within current assets represents the following:

	Group		Company	
	2017	2016	2017	2016
	£m	£m	£m	£m
Trade receivables	**39**	25	**29**	15
Amounts owed by subsidiary undertakings	**—**	—	**622**	590
Prepayments and accrued income	**10**	16	**8**	13
Other receivables	**4**	4	**1**	3
	53	45	**660**	621

The ageing of total trade receivables at 30 September was as follows:

	Group		Company	
	2017	2016	2017	2016
	£m	£m	£m	£m
Not past due	**40**	27	**30**	16
Up to 30 days overdue	**1**	1	**—**	—
	41	28	**30**	16

21. Trade and other receivables (Continued)

Credit risk

There are no significant concentrations of credit risk within the Group. The Group is exposed to a small amount of credit risk that is primarily attributable to trade receivables and cash balances. The Group's objective is to minimise this risk by carrying out credit checks where appropriate. The amount of trade and other receivables included in the balance sheet are net of a bad debt provision which has been determined by management following a review of individual receivable accounts and is based on prior experience and known factors at the balance sheet date after taking into account collateral held in the form of cash deposits. Receivables are written off against the bad debt provision when management considers that the debt is no longer recoverable.

At 30 September 2017 the value of deposits held by the Group is £32 million (2016: £33 million) and by the Parent Company is £19 million (2016: £21 million). This balance is held on the balance sheet in other payables.

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

	Group		Company	
	2017	2016	**2017**	2016
	£m	£m	**£m**	£m
Provision as at 1 October	**2**	2	**2**	2
Increase in provision during the year	**1**	1	**1**	1
Provision utilised during the year	**—**	—	**—**	—
Provision released during the year	**(1)**	(1)	**(1)**	(1)
Provision as at 30 September	**2**	2	**2**	2

There are no indications as at 30 September 2017 that debtors will not meet their payment obligations in respect of the amount of trade receivables recognised in the balance sheet that are neither past due nor impaired. The maximum amount of exposure to credit risk is the carrying value of trade receivables. The Group's credit risk on liquid funds is limited because the Group only invests with banks and financial institutions with high credit ratings.

22. Trade and other payables

	Group		Company	
	2017	2016	**2017**	2016
	£m	£m	**£m**	£m
Trade payables	**37**	32	**35**	29
Amounts due to subsidiary undertakings	**—**	—	**79**	87
Accruals and deferred income	**113**	107	**85**	80
Other payables	**47**	44	**29**	28
	197	183	**228**	224

At 30 September 2017 the value of deposits held by the Group in other payables is £32 million (2016: £33 million) and by the Parent Company is £19 million (2016: £21 million).

23. Financial assets and liabilities

	Group		Company	
	2017	2016	2017	2016
Financial assets	£m	£m	£m	£m
Non-current				
Loans due from subsidiary undertakings (see note 33)	**—**	—	**9**	2
Total financial assets	**—**	—	**9**	2

	Group		Company	
	2017	2016	2017	2016
Financial liabilities	£m	£m	£m	£m
Current				
Securitised bonds	**81**	77	**—**	—
Commitment for share buybacks	**—**	5	**—**	5
	81	82	**—**	5
Non-current				
Bank borrowings	**55**	55	**55**	55
Corporate bonds	**1,205**	1,202	**1,120**	1,120
Securitised bonds	**917**	1,001	**—**	—
Finance lease payables	**3**	3	**1**	1
Loans due to subsidiary undertakings (see note 33)	**—**	—	**85**	82
	2,180	2,261	**1,261**	1,258
Total financial liabilities	**2,261**	2,343	**1,261**	1,263

'Bank borrowings' refers to the revolving credit facility (see table on page 108).

'Corporate bonds' refers to secured bonds and an unsecured convertible bond (see table on page 108).

'Securitised bonds' refers to secured bonds (see table on page 108).

Fair values

The corporate bonds and securitised bonds were valued at fair value as at 30 September by J C Rathbone, independent valuers. The fair value of the corporate bonds and securitised bonds is measured at market price and are therefore evaluated to be level 1 in the fair value hierarchy described in note 3.

Management assessed that cash and short-term deposits, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

The fair value of the Group's bank borrowings, evaluated to be level 2 in the fair value hierarchy described in note 3, is not deemed to be materially different to the nominal value if it had been determined by using the discounted cash flow method using a discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 30 September 2017 was also assessed to be insignificant.

23. Financial assets and liabilities (Continued)

The nominal, book and fair values of financial assets and liabilities have been analysed into categories as below:

	Group						
	Interest rate	2017 Nominal value	2017 Book value	2017 Fair value	2016 Nominal value	2016 Book value	2016 Fair value
		£m	£m	£m	£m	£m	£m
Bank borrowings:							
Revolving credit facility	LIBOR + 3.0%	**55**	**55**	**55**	55	55	55
		55	**55**	**55**	55	55	55
Corporate bonds:							
Secured bond—issued 9 May 2000	6.875%	**125**	**125**	**139**	125	125	127
Secured bond—issued 15 February 2001	6.875%	**125**	**124**	**139**	125	124	135
Secured bond—issued 26 February 2002	6.375%	**275**	**273**	**308**	275	273	277
Secured bond—issued 3 March 2003	6.5%	**100**	**100**	**106**	350	351	379
Secured bond—issued 7 October 2014	6.0%	**250**	**248**	**272**	250	247	254
Secured bond—issued 4 November 2016	6.375%	**250**	**250**	**271**	—	—	—
Unsecured convertible bond—issued 10 September 2013	3.5%	**97**	**85**	**99**	97	82	79
		1,222	**1,205**	**1,334**	1,222	1,202	1,251
Securitised bonds:							
A3—issued 30 March 1999	6.542%	**227**	**229**	**247**	284	286	301
A4—issued 20 September 2002	5.659%	**347**	**345**	**394**	367	366	387
M—issued 30 March 1999	7.395%	**225**	**231**	**259**	225	233	226
N—issued 20 September 2002	6.464%	**190**	**193**	**187**	190	193	163
		989	**998**	**1,087**	1,066	1,078	1,077
		2,266	**2,258**	**2,476**	2,343	2,335	2,383
Commitment for share buybacks		**—**	**—**	**—**	—	5	5
Finance lease payables (see note 25)		**—**	**3**	**3**	—	3	3
Total debt		**2,266**	**2,261**	**2,479**	2,343	2,343	2,391
Cash*		**(151)**	**(151)**		(145)	(145)	
Underlying net debt/net debt (see note 32)		**2,115**	**2,110**		2,198	2,198	

* Cash balances, in the current year and in the prior year, within the Group include £65 million held within a securitised reserve account. Withdrawals can only be made from this account with the consent of the securitisation Trustee.

The nominal value of financial assets and liabilities is the principal amount.

The book value of financial assets and liabilities includes unamortised fees, fair value adjustments made on acquisition and excludes the value ascribed to the equity element of the convertible loan note.

23. Financial assets and liabilities (Continued)

	Company						
	Interest rate	2017 Nominal value	2017 Book value	2017 Fair value	2016 Nominal value	2016 Book value	2016 Fair value
		£m	£m	£m	£m	£m	£m
Bank borrowings:							
Revolving credit facility	LIBOR + 3.0%	**55**	**55**	**55**	55	55	55
		55	**55**	**55**	55	55	55
Corporate bonds:							
Secured bond—issued 9 May 2000	6.875%	**125**	**125**	**139**	125	125	127
Secured bond—issued 15 February 2001	6.875%	**125**	**124**	**139**	125	124	135
Secured bond—issued 26 February 2002	6.375%	**275**	**273**	**308**	275	273	277
Secured bond—issued 3 March 2003	6.5%	**100**	**100**	**106**	350	351	379
Secured bond—issued 7 October 2014	6.0%	**250**	**248**	**272**	250	247	254
Secured bond—issued 4 November 2016	6.375%	**250**	**250**	**271**	—	—	—
		1,125	**1,120**	**1,235**	1,125	1,120	1,172
		1,180	**1,175**	**1,290**	1,180	1,175	1,227
Commitment for share buybacks		**—**	**—**	**—**	—	5	5
Finance lease payables (see note 25)		**—**	**1**	**1**	—	1	1
Intercompany:							
Amounts owed by subsidiary undertakings		**(9)**	**(9)**	**(9)**	(2)	(2)	(2)
Amounts owed to subsidiary undertakings		**97**	**85**	**85**	97	82	82
Total debt		**1,268**	**1,252**	**1,367**	1,275	1,261	1,313
Cash		**(15)**	**(15)**		(18)	(18)	
Underlying net debt/net debt		**1,253**	**1,237**		1,257	1,243	

The bank borrowings, corporate bonds and securitised bonds are held at amortised cost. Finance lease payables represent the present value of future minimum lease payments. Other categories of financial instruments include trade receivables and trade payables. However there is no difference between the book value and fair value of these items.

Bank borrowings

On 24 October 2016 a new £120 million non-amortising revolving credit facility (RCF) was agreed, which is available through to August 2020 and attracts interests at 3% above LIBOR on the drawn balance. This replaced the £138 million RCF which attracted interest at the same rate and was due to expire in September 2018.

On 14 March 2017 the RCF was increased in size to £140 million on the same terms.

On 19 September 2017 the Group entered into a new committed term loan bank facility of £50 million which is available for drawing until December 2018 with repayment of the amount drawn due by July 2020.

Corporate bonds

On 10 September 2013 Enterprise Funding Limited (the Issuer) issued a £97 million 3.5% guaranteed convertible bond due 2020 (the bond) at par. The Parent Company has unconditionally and irrevocably

23. Financial assets and liabilities (Continued)

guaranteed the due and punctual performance by the Issuer of all of its obligations (including payments) in respect of the bond. The obligations of the Parent Company, as guarantor, constitute direct, unsubordinated, unconditional and unsecured obligations of the Parent Company.

Subject to the terms, the bond is convertible into preference shares of the Issuer which are automatically transferred to the Parent Company in exchange for ordinary shares in the Parent Company. The bond converts at a premium of 35% to the share price on 10 September 2013 of 141.5p, which means that the bond is convertible based on an exchange share price of 191.0p into 50.8 million ordinary shares. The exchange share price is adjusted on the happening of certain events, including the payment of a dividend.

In accordance with the Group's accounting policy for convertible financial instruments, the proceeds received from the convertible bond issue were split, with an initial £75 million recorded as a liability and £22 million recorded within equity, stated net of costs of £2 million and £1 million respectively. The difference between the effective interest charged and the actual interest paid is added to the liability element over the life of the convertible bonds.

On 4 November 2016 the Group completed a partial refinancing of the 2018 corporate bond. The partial refinancing resulted in a lower interest coupon and an extended debt maturity. Prior to the refinancing £350.5 million of 2018 secured corporate bonds were outstanding with a coupon of 6.5%. The Group received and accepted tender instructions for £250 million of these bonds at a cash purchase price of 111% of their principal amount resulting in a £28 million repurchase premium. In connection with this partial refinancing the Group issued new £250 million secured corporate bonds, due in February 2022, at a coupon of 6.375%, resulting in a reduction of the corporate bonds maturing in 2018 to £100.5 million. The new issue benefits from a security package on substantially the same terms as the 2018 bonds.

Securitised bonds

During the year the Group has made scheduled repayments on the Unique A3 and A4 securitised bonds leaving £989 million outstanding at the year end. At 30 September 2017 the Group was £76 million ahead of the amortisation schedule through early repayment and market purchases.

Commitment for share buybacks

In the prior year the Group had entered into a contingent agreement with a third party which requires the Group to purchase shares. This resulted in a financial liability of £5 million at 30 September 2016. No such agreement was entered into at 30 September 2017.

Intercompany

The amount owed to subsidiary undertakings relates to the issue of the convertible bonds in Enterprise Funding Limited, these proceeds have been on-loaned to Ei Group plc on the same terms with an amount recorded in equity and an amount recorded as a liability.

Financial instruments and risk

The Group's financial instruments comprise bank borrowings, corporate bonds, securitised bonds and cash. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. There is no currency exposure as all transactions are in sterling. The Board reviews and agrees policies for managing each of these risks and they are summarised as follows:

Liquidity risk

The Group has exposure to liquidity risk, being the risk that payments cannot be made when they fall due. The Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of bank borrowings, corporate bonds and securitised bonds.

This objective is achieved through the following processes:

- regular cash flow forecasting and reporting through the treasury function;

23. Financial assets and liabilities (Continued)

- regular review of the Group's debt portfolio including maturities and repayment profile; and
- maintenance of undrawn bank facilities.

The proportion of nominal value of borrowings comprised:

	Group		Company	
	2017	2016	2017	2016
	%	%	%	%
Bank borrowings	**2%**	2%	**5%**	5%
Corporate bonds	**54%**	52%	**95%**	95%
Securitised bonds	**44%**	46%	**—**	—

The maturity of the debt and interest payments is set out below:

	Group					
	2017			2016		
	Debt	Interest	Total	Debt	Interest	Total
	£m	£m	£m	£m	£m	£m
In more than five years	**1,184**	**327**	**1,511**	1,288	407	1,695
In more than two years but not more than five years	**816**	**312**	**1,128**	842	308	1,150
In more than one year but not more than two years	**185**	**129**	**314**	136	141	277
In one year or less or on demand	**81**	**140**	**221**	77	146	223
	2,266	**908**	**3,174**	2,343	1,002	3,345

	Company					
	2017			2016		
	Debt	Interest	Total	Debt	Interest	Total
	£m	£m	£m	£m	£m	£m
In more than five years	**650**	**196**	**846**	650	237	887
In more than two years but not more than five years	**527**	**178**	**705**	572	156	728
In more than one year but not more than two years	**100**	**73**	**173**	55	79	134
In one year or less or on demand	**—**	**79**	**79**	—	79	79
	1,277	**526**	**1,803**	1,277	551	1,828

The table above shows the contractual, undiscounted cash flows due in future periods to settle the debt and interest payments. The total amount of debt payable shown above differs from the total book value of debt of £2,261 million (2016: £2,343 million) in the Group and £1,261 million (2016: £1,263 million) in the Parent Company as the book value of debt includes unamortised fees, fair value adjustments made on acquisition and excludes the value ascribed to the equity element of the convertible loan note. The contractual maturity of trade and other payables and the share buyback commitment is within one year.

An analysis of minimum lease payments due under finance leases is set out in note 25.

23. Financial assets and liabilities (Continued)

The Group's bank borrowings, corporate bonds and securitised bonds are repayable as follows:

Bank borrowings	
Revolving credit facility	2020
Term loan facility	2020
Corporate bonds:	
£125 million 6.875% bond	2025
£125 million 6.875% bond	2021
£275 million 6.375% bond	2031
£100.5 million 6.5% bond	2018
£249.5 million 6.0% bond	2023
£250 million 6.375% bond	2022
£97 million 3.5% convertible bond	2020
Securitised bonds:	
A3	2013–2021
A4	2013–2027
M	2021–2024
N	2027–2032

Details of undrawn borrowing facilities available at 30 September are as follows:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	£m	**£m**	**£m**	**£m**
Expiring:				
In more than five years	**148**	190	**—**	—
In more than two years but not more than five years	**139**	—	**135**	—
In more than one year but not more than two years	**—**	83	**—**	83
In one year or less or on demand	**—**	—	**—**	—
	287	273	**135**	83

	Group		Company	
	2017	**2016**	**2017**	**2016**
	£m	**£m**	**£m**	**£m**
The undrawn facilities relate to:				
Undrawn liquidity facility	**152**	190	**—**	—
Undrawn element of committed bank facility	**85**	83	**85**	83
Undrawn term loan facility	**50**	—	**50**	—

The liquidity facility is in respect of the Unique securitisation and is a renewable committed facility of £152 million (2016: £190 million) for a term of 364 days. The liquidity facility is available to meet certain payment obligations falling due in the Unique securitisation to the extent that insufficient funds are received to meet such payments. The liquidity facility is due for renewal on 21 September 2018. The facility relates to the bonds that amortise over a period to 2032 and it reduces as the bonds amortise. Of the total facility available at 30 September 2017, £4 million expires within two to five years and £148 million expires in more than five years.

Interest rate risk

The Group borrows its corporate bonds and securitised bonds at a fixed rate. Bank borrowings and cash balances attract interest at a floating rate. The Group's objective is to manage exposure to changes in interest rates. This exposure is managed by borrowing at fixed rates on the majority of its debt. At 30 September 2017, the Group's borrowings were 98% fixed with an average interest rate of 6.3% for 6 years (2016: 98% fixed with an average interest rate of 6.3% for 7 years). The Parent Company's borrowings were 95% fixed with an average interest rate of 6.3% for 7 years (2016: 95% fixed with an average interest rate of 6.4% for 7 years).

23. Financial assets and liabilities (Continued)

Interest rate sensitivity

In estimating the sensitivity of the financial instruments we have assumed a reasonable potential change in interest rates. The method used assumes that all other variables are held constant to determine the impact on profit before tax. The analysis is for illustrative purposes only, as in practice market rates rarely change in isolation.

Actual results in the future may differ materially from these estimates due to the movements in the underlying transactions, actions taken to mitigate any potential losses, the interaction of more than one sensitivity occurring, and further developments in global financial markets. As such the below should not be considered as a projection of likely future gains and losses in these financial instruments.

If interest rates were to increase by 50 basis points the interest receivable in the Group would increase by £nil (2016: £1 million) and the interest payable would increase by £1 million (2016: £1 million). If interest rates were to decrease by 50 basis points the interest receivable in the Group would decrease by £nil (2016: £1 million) and the interest payable would decrease by £1 million (2016: £1 million).

If interest rates were to increase by 50 basis points the interest payable in the Parent Company would increase by £nil (2016: £1 million). If interest rates were to decrease by 50 basis points the interest payable in the Parent Company would decrease by £nil (2016: £1 million). Following a group reorganisation during the prior year there are no floating rate receivables remaining in the Parent Company and therefore there is no exposure within interest receivable to movements in interest rates.

Security

The bank borrowings are secured by a security deed entered into by the companies which comprise the Group, excluding Enterprise Inns Holding Company Limited and its subsidiaries, Unique Pubs Limited and its subsidiaries and Enterprise Funding Limited. The lenders have a floating charge over all of the assets and undertakings of such Group companies. The floating charge ranks subsequent to the fixed charges created by the corporate bonds.

The total value of assets within the Group secured by way of a fixed or floating charge as at 30 September 2017 is property, plant and equipment £3,293 million (2016: £3,409 million), investment property £270 million (2016: £196 million) operating lease premiums £9 million (2016: £9 million) and non-current assets held for sale £25 million (2016: £21 million). The value of assets within the Parent Company secured by way of a fixed or floating charge as at 30 September 2017 is property, plant and equipment £1,696 million (2016: £1,787 million), investment property £119 million (2016: £82 million) operating lease premiums £4 million (2016: £4 million) and non-current assets held for sale £12 million (2016: £10 million).

The security pledged for the Group's debt is summarised below:

Debt instrument	Security
Bank borrowings	— 1st floating charge over the balance of properties in the Parent Company not already secured by a 1st fixed charge created by the corporate bonds.
	— 2nd floating charge over the properties secured by a 1st fixed charge created by the corporate bonds.
	— Share pledge over Unique Pubs Limited.
Corporate bonds (excluding the unsecured convertible bond)	— 1st fixed charge over the 1,984 properties in the Parent Company valued by GVA Grimley Limited (see note 18).
	— 2nd floating charge over the balance of properties in the Parent Company.
Securitised bonds	— Collectively over the whole securitisation the security incorporates a 1st fixed charge in favour of the Trustee over the Issuer's right, title, interest and benefit, present and future to all properties, cash, eligible investments and income generated by Unique Pub Properties Limited.

23. Financial assets and liabilities (Continued)

Covenants

The Group is subject to a number of covenants in relation to its borrowing facilities. There are three covenants that relate to the bank borrowings, which are tested quarterly. There is one leverage covenant and two asset valuation covenants. There is sufficient headroom on all three of these covenants. The covenants are unchanged under the new revolving credit facility.

There are no covenants on the term loan facility until a loan is drawn.

There are two covenants that relate to the corporate bonds (excluding the unsecured convertible bond); an asset value covenant and a net annual income covenant. At the year end there is an annual valuation of the estate and a review of the annual income for the properties secured under each of the corporate bonds. The valuation is undertaken by a firm of independent chartered surveyors. The directors certify the net annual income as part of an annual compliance exercise. In the event that property values or incomes have fallen, there may be a requirement to add more properties to the security of the corporate bonds and any addition of new properties must be completed within 90 days of the year end. There is sufficient headroom on both of these covenants. The covenants are unchanged in the new corporate bond.

There are two covenants that relate to the securitised bonds which are tested at each quarter end. These covenants are based solely on the assets held within the securitised bonds and comprise a net asset covenant and a debt service cover covenant. There is sufficient headroom in both of these covenants.

The Group tests all of the above covenants on a regular basis and forecasts are prepared during the budgeting process. These are reviewed at Board level.

Change of control

All of the agreements in relation to bank borrowings and corporate bonds to which the Group is party, contain provisions that allow the counterparties to terminate funding in certain circumstances where there has been a change of control of the Parent Company. These are detailed below:

Agreement	Summary of change of control clause
Revolving credit facility agreement dated 24 October 2016	If any person or group of persons acting in concert gains control of the Company then the Company shall promptly notify the agents and lenders. If any lender so requires, it may cancel its commitments to the Company and require the Company to repay all loans outstanding to it.
Term loan facility dated 19 September 2017	If any person or group of persons acting in concert gains control of the Company then the Company shall promptly notify the agent. A lender shall not be obliged to fund a loan and may cancel its commitment to the Company and require the Company to repay all loans outstanding to it.
£125 million 6.875% secured bonds due 2025 £125 million 6.875% secured bonds due 2021 £275 million 6.375% secured bonds due 2031 £100.5 million 6.5% secured bonds due 2018 £249.5 million 6% secured bond due 2023 £250 million 6.375% secured bond due 2022	The terms and conditions of each of the secured bonds provide that following the occurrence of a restructuring event, which is defined in the terms and conditions to include: (i) any person or persons acting in concert becoming interested in more than 50% of the shares of the Company; or (ii) any person or group of connected persons acquiring control of the Company; or (iii) any person or persons acquiring the right to appoint more than 50% of the directors of the Company,

23. Financial assets and liabilities (Continued)

Agreement	Summary of change of control clause
	the secured bonds must: (a) if they are not rated, after a written resolution of the bondholders, either be redeemed by the Company or the Company must successfully seek an investment grade rating for the secured bonds; or (b) if they are rated and such rating is below investment grade or later falls below investment grade, be redeemed by the Company.
Unsecured convertible bond due 2020	If any person or persons, acting together, acquire(s) or becomes entitled to control more than 50% of the votes that may ordinarily be cast on a poll at a general meeting of the Parent Company, the holder of each bond will have the right to require the Issuer to redeem that bond on the change of control put date at its principal amount, together with accrued and unpaid interest up to (but excluding) such date.

24. Capital disclosures and analysis of changes in net debt

The capital structure is managed to support the Group's objective of maximising long-term shareholder value through ready access to debt and capital markets, cost effective borrowing and flexibility to fund business and acquisition opportunities whilst maintaining appropriate leverage to optimise the cost of capital.

The capital structure of the Group is based upon management's judgement of the appropriate balancing of all key elements of its financial strategy in order to meet the Group's operational and strategic requirements. This includes a strategy on dividends, share buybacks and monitoring liquidity risk. The overall financing strategy of the Group is presented to the Board annually as part of the budgeting exercise.

25. Leases

The Group and the Parent Company as lessee

The Group and the Parent Company lease a proportion of their licensed estate from landlords under finance leases and operating leases. These leases have varying terms, escalation clauses and renewal rights.

Finance leases

	Group		Company	
	2017	**2016**	**2017**	**2016**
	£m	**£m**	**£m**	**£m**
Future minimum lease payments due under finance leases:				
In less than one year	**—**	1	**—**	—
After one year but not more than five years	**2**	2	**1**	1
In more than five years	**21**	22	**9**	10
	23	25	**10**	11
Future finance lease interest	**(20)**	(22)	**(9)**	(10)
Present value of future minimum lease payments	**3**	3	**1**	1

The present value of future minimum lease payments is due in more than five years (2016: more than five years).

25. Leases (Continued)

Properties that are leased from landlords under finance leases are let to tenants. Future minimum rentals receivable in the Group, from non-cancellable sub-leases on the above properties are £59 million (2016: £54 million). Future minimum rentals receivable in the Parent Company, from non-cancellable sub-leases on the above properties are £30 million (2016: £20 million).

Operating leases

	Group		Company	
	2017	2016	2017	2016
	£m	£m	£m	£m
Operating lease rentals recognised as an expense in the year	**21**	21	**20**	20

	Group		Company	
	2017	2016	2017	2016
	£m	£m	£m	£m
Future minimum lease payments due under operating leases:				
In less than one year	**21**	20	**19**	18
After one year but not more than five years	**84**	77	**77**	74
In more than five years	**291**	280	**258**	261
	396	377	**354**	353

Properties that are leased from landlords under operating leases are let to tenants. Future minimum rentals receivable in the Group, from non-cancellable sub-leases on the above properties are £110 million (2016: £123 million). Future minimum rentals receivable in the Parent Company, from non-cancellable sub-leases on the above properties are £135 million (2016: £117 million).

The Group and Parent Company as lessor

The Group and the Parent Company lease their properties to tenants. The majority of lease agreements have terms of between one and 30 years and all are classified for accounting purposes as operating leases. Most of the leases with terms of over three years include RPI based rent adjustments and provision for rent reviews on either a three or five year basis.

The present value of future minimum lease rentals receivable under non-cancellable operating leases are as follows:

	Group		Company	
	2017	2016	2017	2016
	£m	£m	£m	£m
Future minimum lease rentals receivable under operating leases:				
In less than one year	**135**	143	**78**	78
After one year but not more than five years	**414**	460	**259**	246
In more than five years	**542**	526	**300**	249
	1,091	1,129	**637**	573

Leases with future minimum lease rentals receivable under operating leases in more than five years within the Group have an average term of 15 years (2016: 14 years) remaining on their agreements and within the Parent Company have an average term of 14 years (2016: 12 years) remaining on their agreements.

26. Provisions

	Group		Company	
	2017	2016	2017	2016
	£m	£m	£m	£m
At 1 October:				
Non-current	**4**	4	**4**	4
	4	4	**4**	4
Movement during the year:				
Increase in provision during the year	**2**	1	**1**	1
Release of provision during the year	**(1)**	(1)	**(1)**	(1)
	1	—	**—**	—
At 30 September:				
Current	**1**	—	**1**	—
Non-current	**4**	4	**3**	4
	5	4	**4**	4

The provision in both the Group and Parent Company relates to future commitments under onerous lease agreements. The provision is expected to be utilised over the life of leases involved or as the properties are disposed of. The remaining lease terms vary from 0 to 133 years.

27. Deferred tax

The deferred tax in the balance sheet relates to the following:

	Group		Company	
	2017	2016	2017	2016
	£m	£m	£m	£m
Unrealised surplus on revaluation of fixed assets and rolled over gains	**136**	146	**50**	55
Accelerated capital allowances	**45**	46	**30**	31
Share-based payments	**(1)**	(2)	**(1)**	(2)
Temporary differences	**(4)**	(5)	**(1)**	—
	176	185	**78**	84

The UK Government reduced the rate of corporation tax from 20% to 17% effective by 1 April 2020. Deferred taxation has been calculated based on the current substantively enacted rate of 17%. No further changes in the UK tax rate are anticipated.

The deferred tax provision for the unrealised surplus on the revaluation of fixed assets in the Group has moved during the year as follows:

	£m
Opening provision at 1 October 2016	**146**
Reduction in deferred tax liability due to indexation credited to the income statement	**(4)**
Reduction in deferred tax liability due to movements from revaluation of the estate and disposals recognised in the income statement	**(3)**
Reduction in deferred tax liability recognised in other comprehensive income	**(3)**
Closing provision at 30 September 2017	**136**

The Group has not provided deferred tax in relation to temporary differences associated with undistributed earnings of subsidiaries on the basis that under current enacted law, no tax is payable on dividends payable and receivable within the Group.

In the prior year the amount of deferred tax provided by the Parent Company at the year end was reduced by £10 million as a result of a reassessment of how indexation relief and declines in carrying value were applied to assets impacted by initial recognition exemption rules. Of this adjustment, £21 million was credited through other comprehensive income to the revaluation reserve and £11 million charged to the Parent Company income statement.

28. Pension

The Group and the Parent Company make defined contribution payments to employees' own pension plans and these payments are charged to the income statement as incurred.

RetailLink Management Limited (a subsidiary company that has now been liquidated as part of a Group reorganisation) established a pension plan for its employees in January 1999. The plan has a defined contribution and defined benefit scheme. The plan is now closed to new members and for the future accrual of benefits.

The plan is governed by the employment laws of the United Kingdom which require final salary payments to be adjusted for the consumer price index upon payment during retirement. The level of benefits provided depends on a member's length of service and salary at retirement age. The fund has a legal form of foundation and is governed by the Board of Pension Trustees. The Board of Trustees is responsible for the administration of the plan assets and for the definition of the investment strategy.

In April 2014, the Trustees of the RetailLink Management Limited pension plan (the Plan) and the Company committed to a bulk annuity buyout of the defined benefit section of the Plan, crystallising a liability of £10 million payable through a deferred payment schedule over a four year period. The initial stage of this process involved the Trustees using the Plan's defined benefit section assets to purchase a bulk annuity policy from Legal & General Assurance Society Limited (LGAS). The policies commenced with effect from 30 April 2014 and will be held for the time being as investments of the Plan. Once the deferred premiums have been paid, the Trustees intend to ask LGAS to issue individual annuity policies to defined benefit section members and then wind-up the Plan, after which the Company will no longer retain any responsibilities or obligations to the members of the Plan. The deferred payment plan attracts interest at a rate of LIBOR plus 2.5%.

In view of the relative insignificance of the pension scheme, both on a gross and net basis, the Group has elected to only present summarised disclosures to one decimal place in respect of the scheme.

Assets and liabilities of the plan	**2017**	**2016**
	£m	**£m**
Fair value of plan assets:		
Cash	**0.1**	0.1
Assets held by insurance companies	**34.7**	36.4
	34.8	36.5
Present value of plan liabilities	**(34.8)**	(36.5)
Provision for deferral premiums and future administrative costs	**(2.4)**	(4.7)
Net pension deficit	**(2.4)**	(4.7)

Recognised in the balance sheet as:	**2017**	**2016**
	£m	**£m**
Current liabilities	**(2.4)**	(2.4)
Non-current liabilities	**—**	(2.3)
	(2.4)	(4.7)

Movement in deficit during the year	**2017**	**2016**
	£m	**£m**
Net deficit at the start of the year	**(4.7)**	(7.0)
Deferred premium paid	**2.3**	2.3
Net pension deficit at the end of the year	**(2.4)**	(4.7)

28. Pension (Continued)

The principal assumptions made by the actuaries were:	2017	2016
	%	%
Rate of increase in pension payments	**3.60**	3.55
Rate of increase of pensions in deferment	**2.20**	2.05
Discount rate	**2.70**	2.40
Inflation assumption	**3.20**	3.05
Longevity at age 65 for current pensioners		
Men	**23 years**	23 years
Women	**25 years**	25 years
Longevity at age 65 for future pensioners		
Men	**25 years**	25 years
Women	**27 years**	27 years

The mortality tables used to value the plan's liabilities are S2PA light tables adjusted for CMI improvements subject to a minimum annual long-term improvement of 1.25% p.a. for current pensioners and for future retirees (with a -1 year age adjustment for females). These tables give a life expectancy as set out above.

Due to the nature of the pension deficit being the deferred payment plan outstanding for the bulk annuity policy, sensitivity analysis is not relevant and has therefore not been disclosed.

The Company will not be making any contributions to the defined benefit plan in future years following the bulk annuity buyout.

29. Share capital

Authorised:	2017		2016	
	No.	£m	No.	£m
Ordinary shares of 2.5p each	**1,000,000,000**	**25**	1,000,000,000	25

Allotted, called up and fully paid:	2017		2016	
	No.	£m	No.	£m
Ordinary shares of 2.5p each	**531,919,858**	**13**	544,932,627	14

Ordinary shares carry no right to fixed income. Holders of ordinary shares are entitled to vote at meetings.

At 30 September 2017, the Group owned 50 million of its own shares as treasury shares with a nominal value of £1 million and a market value of £69 million (2016: 50 million shares, nominal value £1 million, market value £47 million). In addition, at 30 September 2017 the Group held 1,869,815 shares with a nominal value of £0.05 million and a market value of £3 million (2016: 6,851,312 shares, nominal value £0.2 million, market value £6 million). These shares are held by the Employee Benefit Trust and are shares used to satisfy awards made under the Company incentive plans and other share option schemes (note 30).

During the year the Group made on-market purchases in respect of 13 million (2016: 11 million) of its own ordinary shares for an aggregate consideration of £15 million (2016: £10 million) (excluding costs) as part of its share buyback plan. These shares were cancelled. Transaction costs of £0.1 million (2016: £0.1 million) have been accounted for directly in equity in the profit and loss reserve.

30. Share-based payments

The Group operates share-based payment schemes for both directors and other employees. Details of the deferred share award and Long-Term Incentive Plan (LTIP) which form part of the remuneration of the executive directors are given in the directors' remuneration report on pages 58 to 72.

The Group also operates a Share Incentive Plan (SIP), an Employee Share Option Scheme (ESOS), and a Save As You Earn Scheme (SAYE).

A total expense of £3 million (2016: £2 million) has been incurred in the year in relation to share-based payments. This expense relates wholly to the equity-settled schemes described above.

Share Incentive Plan

The SIP is open to all Parent Company and Bermondsey Pub Company employees. At times determined by the Parent Company, employees may allocate the lower of £1,800 or 10% of pre-tax salary to purchase

30. Share-based payments (Continued)

shares out of their salary. The Board may also decide to award matching shares. The shares are held in trust on behalf of the employee. If shares are removed from trust within three years, any allocation of matching shares may be lost. Shares can be transferred tax-free to employees after a period of five years. Matching shares were awarded every year from 2005 to 2017.

The cost of the matching shares is being spread over the three year vesting period of the scheme.

Details of the number of matching shares held in trust during the year are as follows:

	2017 Number of shares	2016 Number of shares
Outstanding at beginning of year	**478,446**	519,959
Granted	**161,928**	159,455
Vested	**(258,735)**	(189,532)
Forfeited	**(14,052)**	(11,436)
Outstanding at end of year	**367,587**	478,446
Weighted average remaining contractual life	**1.3 years**	1.1 years

Employee Share Option Scheme

The ESOS is open to all employees. Share options are awarded to employees at the discretion of the Board. Options will normally vest after three years if an employee remains in service and if EPS targets are met. There were no options granted during the current or prior year. Options may normally only be exercised during the period of seven years commencing on the third anniversary of the date of grant of the option. Options will usually be settled using ordinary shares held by the Employee Benefit Trust.

Details of the share options outstanding during the year are as follows:

	2017		2016	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
		£		£
Outstanding at beginning of year	**312,497**	**0.37**	6,835,458	1.29
Exercised	**(71,875)**	**0.37**	(110,410)	0.42
Expired	**—**	**—**	(6,412,551)	1.35
Outstanding at end of year	**240,622**	**0.37**	312,497	0.37
Weighted average remaining contractual life	**4.2 years**		5.2 years	

Options outstanding at 30 September 2017 comprise the following:

Exercise date	Number of share options	Exercise price
		£
Exercisable:		
12/12/14–12/12/21	240,622	0.37

There were no options granted during the current or prior year under the ESOS.

SAYE scheme

The SAYE scheme is open to executive directors and employees at the discretion of the Board. Participants contract to save a fixed amount each month with a savings institution for a period of five years (previously a seven year scheme has also been offered). At the end of the savings term, participants are given the option to purchase shares at a price set before the savings began. The option price will be not less than 80% of the market value of a share on the date that participants are invited to take part in the scheme, or the nominal value of a share, if higher. Options will usually be settled using ordinary shares held by the Employee Benefit Trust and will usually be exercisable for six months after the fifth or seventh anniversary of the commencement of the savings contract.

30. Share-based payments (Continued)

Details of the share options outstanding during the year are as follows:

	2017		2016	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
		£		£
Outstanding at beginning of year	**5,908,494**	**0.49**	5,549,799	0.46
Granted	**1,243,831**	**0.83**	920,626	0.86
Exercised	**(3,305,470)**	**0.25**	(208,452)	0.45
Expired	**—**	**—**	(6,070)	0.80
Forfeited	**(519,847)**	**0.87**	(347,409)	0.91
Outstanding at end of year	**3,327,008**	**0.80**	5,908,494	0.49
Weighted average remaining contractual life		**1.8 years**		2.1 years

Options outstanding at 30 September 2017 comprise the following:

Exercise date	Number of share options	Exercise price
		£
01/02/16–31/07/18	1,575	0.80
01/02/19–31/07/19	190,908	0.24
01/02/18–31/07/18	354,321	0.54
01/02/19–31/07/19	142,622	1.21
01/02/20–31/07/20	887,583	0.87
01/02/21–31/07/21	696,952	0.86
01/02/22–31/07/22	1,053,047	0.83
	3,327,008	

The weighted average fair value of options granted during the year under the SAYE scheme was £0.64 (2016: £0.38).

Deferred share award and LTIP

Executive directors and other members of the senior management team are eligible to participate in a deferred share award and an LTIP plan. A summary of the rules of these schemes along with details of shares that have been granted to the executive directors and are outstanding in relation to them is included in the directors' remuneration report on pages 58 to 72.

Shares awarded vest over between one and three years from fulfilment of performance targets.

Details of the total number of share options outstanding during the year are as follows:

	2017		2016	
	LTIP Number of share options	Deferred share award Number of share options	LTIP Number of share options	Deferred share award Number of share options
Outstanding at beginning of year	**5,558,974**	**4,326,130**	5,890,548	3,136,071
Granted	**2,096,397**	**1,296,745**	2,104,963	1,772,422
Exercised	**(1,293,456)**	**(1,514,299)**	(426,248)	(392,622)
Lapsed	**(746,475)**	**—**	(2,010,289)	—
Forfeited	**(80,888)**	**(489,151)**	—	(189,741)
Outstanding at end of year	**5,534,552**	**3,619,425**	5,558,974	4,326,130
Weighted average remaining contractual life	**2.7 years**	**2.4 years**	2.3 years	2.0 years

The share price at which the number of shares granted under the deferred share award scheme is calculated, is not confirmed until after the date of the approval of the accounts. The maximum number of

30. Share-based payments (Continued)

deferred share award shares granted during the year is therefore estimated using the closing share price on 30 September 2017. The number of shares granted in 2016 has been amended to show the actual number granted in 2016.

Where the conditions are not met the shares are released in the forfeited line.

Directors and other members of the management team eligible to participate in the deferred share award pay £1 to exercise awards granted under the deferred share award and the LTIP. This is a one-off charge. All of the shares outstanding at 30 September 2017 are not yet exercisable.

The weighted average fair value of shares granted during the year under the deferred share award was £1.34 (2016: £1.03 restated for actual number of shares granted in 2016) and under the LTIP was £1.09 (2016: £0.56).

The weighted average share price on exercise of shares and share options under all schemes during the year was £1.20 (2016: £1.02).

Fair value of share schemes

The fair value of equity-settled share options and share awards granted is estimated at the date of grant using share option valuation models. The SAYE and deferred share award schemes are valued using the Black-Scholes model. The element of the LTIP scheme that relates to non-market conditions is valued using the Black-Scholes model. The element of the LTIP that includes market conditions is valued using the Monte-Carlo simulation model.

The following tables list the inputs to the models for options and shares granted during the year:

	SAYE		Deferred share award		LTIP	
Weighted average:	**2017**	**2016**	**2017**	**2016†**	**2017**	**2016**
Share price (£)	**1.30**	0.92	**1.34**	0.87	**1.39**	0.74
Exercise price (£)	**0.83**	0.86	**0.00**	0.00	**0.00**	0.00
Dividend yield	**0.00%**	0.00%	**0.00%**	0.00%	**0.00%**	0.00%
Expected volatility	**37%**	43%	**34–36%**	35–38%	**34–36%**	34–43%
Risk-free interest rate	**0.75%**	1.02%	**0.11–0.45%**	0.08–1.04%	**0.24–0.56%**	0.49–0.81%
Expected life of option (years)	**5**	5	**2–4‡**	2–4‡	**3–5***	3–5*

† The share price at which the number of shares granted under the deferred share award scheme is calculated is not confirmed until after the date of the approval of the accounts. The maximum number of deferred share award shares granted during the year is therefore estimated using the closing share price on 30 September 2017. The 2016 weighted averages have been amended to reflect the actual number of shares granted in 2017.

‡ The deferred share award for the executive directors vests in 4 years (2016: 4 years), the deferred share award for the executive management vests in two equal tranches after 2 and 3 years (2016: 2 and 3 years) and the deferred share award for the other members of the senior team vests after 4 years (2016: 4 years).

* The LTIP vests in three equal tranches after 3, 4 and 5 years.

Expected share-price volatility is based on historic volatility over the same period of time as the vesting period of the option. For the LTIP the expected life of an option is based on historical data.

The LTIP will only vest in full if a TSR target is met. This is a market condition and the TSR performance criteria has therefore been taken into account when calculating the fair value of the options granted under the LTIP. These conditions have been incorporated into the Monte-Carlo simulation model which is used to fair value the TSR element of the scheme.

31. Reserves

Share premium account

This reserve represents the amount of proceeds received for shares in excess of their nominal value of 2.5 pence per share.

31. Reserves (Continued)

Revaluation reserve

This reserve shows the surplus generated on revaluation of the estate. It represents the amount by which the fair value of the estate exceeds its historic cost net of related tax. During the prior year the Group has transferred a charge of £11 million of deferred tax from the profit and loss account reserve, the Parent Company has reanalysed a credit of £4 million.

Capital redemption reserve

This reserve arose on the repurchase and cancellation of own shares in 1995/96, 2005/06, 2006/07, 2007/08, 2015/16 and 2016/17.

Merger reserve

This reserve arose as a consequence of the acquisition of Century Inns plc in 1998/99.

Treasury share reserve

This reserve shows the cost of own shares purchased by the Parent Company and held as treasury shares. These shares can be cancelled or re-issued.

Other reserve

In the Group this comprises the cost of shares in the Parent Company that are held by the Employee Benefit Trust and the equity component of the convertible bond. The shares in the Employee Benefit Trust are used to satisfy awards made under share incentive plans (note 30).

In the Parent Company this comprises the cost of shares in the Company that are held by the Employee Benefit Trust and the equity component of the on-loan of the funds raised in Enterprise Funding Limited through the convertible bond. This reserve also includes the increase in fair value of subsidiaries recorded at fair value under IAS 27 and the dividends received from Enterprise Pubs Five Limited that cannot be distributed outside the Group.

In the prior year £45 million has been reclassified from other reserves to the profit and loss account in the Parent Company following an impairment to the carrying value of investments.

32. Additional cash flow information

a) Reconciliation of net cash flow to movement in net debt

	2017	2016
	£m	£m
Increase in cash in the year	**6**	18
Cash outflow from change in debt	**77**	104
Debt restructuring costs	**3**	7
Change in net debt resulting from cash flows	**86**	129
Amortisation of issue costs and discounts/premiums on long-term loans	**(4)**	(3)
Amortisation of the fair value adjustments of securitised bonds	**4**	4
Convertible loan note effective interest	**(3)**	(3)
Movement in commitment for share buybacks	**5**	(5)
Movement in net debt in the year	**88**	122
Net debt at start of year	**(2,198)**	(2,320)
Net debt at end of year	**(2,110)**	(2,198)

32. Additional cash flow information (Continued)

b) Analysis of net debt

	2017	2016
	£m	£m
Bank borrowings	**(55)**	(55)
Corporate bonds	**(1,222)**	(1,222)
Securitised bonds	**(989)**	(1,066)
Gross debt	**(2,266)**	(2,343)
Cash	**151**	145
Underlying net debt (note 23)	**(2,115)**	(2,198)
Capitalised debt issue costs	**15**	16
Fair value adjustments on acquisition of bonds	**(17)**	(21)
Convertible loan note effective interest	**(11)**	(8)
Convertible bond reserve	**21**	21
Finance lease payables	**(3)**	(3)
Commitment for share buybacks	**—**	(5)
Net debt (note 23)	**(2,110)**	(2,198)
Balance Sheet:		
Current financial liabilities	**(81)**	(82)
Non-current financial liabilities	**(2,180)**	(2,261)
Cash	**151**	145
Net debt	**(2,110)**	(2,198)

Underlying net debt represents amounts repayable to banks and other lenders net of cash retained in the business. Cash includes £115 million held in the securitised Unique sub-group, of which £65 million is held in a securitised reserve account

33. Related party transactions

Compensation of key management personnel

	2017	2016
	£000	£000
Short-term employee benefits	**2,252**	2,272
Post-employment benefits	**218**	214
Share-based payments	**854**	729
	3,324	3,215

Key management personnel comprises both executive and non-executive directors.

Short-term employee benefits comprise fees, salaries, benefits and performance related bonus as reported in the directors' remuneration report. Post-employment benefits comprise payments made to the directors' own personal pension by way of salary supplements in lieu of contributions. Share-based payments comprise the fair value of deferred share award and LTIP share awards charged in the year. Further information about the remuneration of individual directors is available in the directors' remuneration report on pages 58 to 72.

33. Related party transactions (Continued)

Subsidiaries

The Parent Company's subsidiaries are listed in the following table.

	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
Directly held by Ei Group plc:				
Enterprise Funding Limited	Jersey	Ordinary shares	100%	Financing company
Enterprise Managed Investments Limited	England	Ordinary shares	100%	Investment holding company
Enterprise Inns Holding Company Limited	England	Ordinary shares	100%	Investment holding company
Unique Pubs Limited	England	Ordinary shares	100%	Investment holding company
Century Inns Limited	England	Ordinary shares	100%	Dormant
Enterprise Commercial Property Services Limited	England	Ordinary shares	100%	Dormant
Gibbs Mew Limited	England	Ordinary shares	100%	Dormant
Indirectly held by Ei Group plc:				
Unique Pub Properties Limited	England	Ordinary shares	100%	Ownership of licensed properties
Bermondsey Pub Company Limited	England	Ordinary shares	100%	Management of public houses
Bestplace Limited	England	Ordinary shares	51%	Management of public houses
Dirty Liquor Limited	England	Ordinary shares	75%	Management of public houses
Frontier Pubs Limited	England	Ordinary shares	75%	Management of public houses
Hippo Inns Limited	England	Ordinary shares	75%	Management of public houses
Hunky Dory Pubs Limited	England	Ordinary shares	51%	Management of public houses
Marmalade Pubs Limited	England	Ordinary shares	75%	Management of public houses
Mash Inns Limited	England	Ordinary shares	51%	Management of public houses
Six Cheers Limited	England	Ordinary shares	51%	Management of public houses
The Craft Union Pub Company Limited	England	Ordinary shares	100%	Management of public houses
The Unique Pub Finance Company PLC	England	Ordinary shares	100%	Financing company
		Cumulative preference shares	100%	
Bestplace (Beta) Limited	England	Ordinary shares	75%	Non-trading
Hush Heath Inns Limited	England	Ordinary shares	51%	Non-trading
Social Cellar Limited	England	Ordinary shares	100%	Non-trading
Social Cellar (Alpha) Limited	England	Ordinary shares	100%	Non-trading
Unique Pub Investments Limited	England	Ordinary shares	100%	Investment holding company
Voyager Pub Group Holdings Limited	England	Ordinary shares	100%	Investment holding company

33. Related party transactions (Continued)

	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
Voyager Pub Group Limited	England	Ordinary shares	100%	Investment holding company
Bede Holding Company Limited	England	Ordinary shares	100%	Dormant
Imagegold Limited	England	Ordinary shares	100%	Dormant
Unique Pub Properties Alpha Limited	England	Ordinary shares	100%	Dormant
Unique Pub Properties Beta Limited	England	Ordinary shares	100%	Dormant
Unique Pub Properties Gamma Limited	England	Ordinary shares	100%	Dormant
Unique Pub Properties Theta Limited	England	Ordinary shares	100%	Dormant
West Midlands Taverns Limited	England	Ordinary shares	100%	Dormant

The registered office of all the Group's subsidiary undertakings is 3 Monkspath Hall Road, Solihull, B90 4SJ with the exception of Enterprise Funding Limited which is registered at 22 Grenville Street, St Helier, JE4 8PX, Channel Islands.

Non-controlling interests in the net assets of Hippo Inns Limited, Mash Inns Limited, Frontier Pubs Limited, Hunky Dory Pubs Limited, Marmalade Pubs Limited, Bestplace Limited, Bestplace (Beta) Limited, Dirty Liquor Limited, Six Cheers Limited and Hush Heath Inns Limited total £1 million at 30 September 2017 (2016: £1 million).

Parent Company transactions with subsidiary undertakings

The Parent Company enters into loans with its subsidiary undertakings which attract interest at varying levels. Net interest on these loans was a charge of £7 million (2016: credit of £29 million).

The following loans were outstanding at the year end:

	2017 £m	2016 £m
Loans due from subsidiary undertakings	**9**	2
Loans due to subsidiary undertakings	**(85)**	(82)
	(76)	(80)

The Parent Company entered into other trading transactions with its subsidiary undertakings of £25 million (2016: £47 million) which includes an Asset Management Fee, a Procurement Fee, drink revenue and rent revenue. During the year the Parent Company purchased property, plant and equipment at book value for consideration of £14 million (2016: £30 million) from subsidiary undertakings and sold property, plant and equipment at book value for consideration of £20 million (2016: £2 million) to subsidiary undertakings.

Dividends of £14 million (2016: £284 million) were received in the Parent Company from its subsidiary undertakings.

The following balances were outstanding at the year end:

	2017 £m	2016 £m
Amounts due from subsidiary undertakings	**622**	590
Amounts due to subsidiary undertakings	**(79)**	(87)
	543	503

34. Post balance sheet events

On 20 November 2017 the Group announced a £20 million share buyback programme.

35. Alternative performance measures

Like-for-like Publican Partnerships net income

Publican Partnerships like-for-like net income of £322 million (2016: £315 million) represents underlying EBITDA for the Publican Partnerships business of £325 million (2016: £343 million) excluding £2 million (2016: £13 million) of income in respect of disposals and £1 million of net income (2016: £15 million) relating to other non like-for-like net income.

Like-for-like Commercial Properties net income

Commercial Properties like-for-like net income of £10 million (2016: £10 million) represents underlying EBITDA for the Commercial Properties business of £21 million (2016: £15 million) excluding £1 million (2016: £3 million) of income in respect of disposals and £10 million of net income (2016: £2 million) relating to other non like-for-like net income.

Managed like-for-like sales

Managed like-for-like sales represents underlying revenue from the Managed estate of £80 million (2016: £28 million) excluding underlying revenue from those pubs that have not traded for two full years post investment in their managed format of £70 million (2016: £18 million).

Average net income per pub

Average net income per pub represents the annual net income for Publican Partnerships assets trading at 30 September 2017 of £322 million (2016: £339 million) divided by the total Publican Partnerships assets trading at 30 September 2017 of 4,051 properties (2016: 4,470 properties).

Publican Partnerships net income of £322 million (2016: £339 million) represents underlying EBITDA for the Publican Partnerships business of £325 million (2016: £343 million) excluding £2 million (2016: £3 million) of income in respect of disposals and £1 million of net income (2016: £1 million) relating to other non like-for-like net income.

Average net income per property

Average net income per property represents the annual net income for Commercial Properties assets trading at 30 September 2017 of £22 million (2016: £17 million) divided by the total Commercial Properties assets trading at 30 September 2017 of 331 properties (2016: 273 properties).

Commercial Properties net income of £22 million (2016: £17 million) represents underlying EBITDA for the Commercial Properties business of £21 million (2016: £15 million) excluding £1 million (2016: £1 million) of income in respect of disposals and including £2 million of net income (2016: £3 million) relating to the pubs before they were transferred to the Commercial Property segment offset by unlicensed property income.

Excess cash flow

Excess cash flow in the period was £23 million (2016: £48 million) and is derived from net cash flows from operating activities of £261 million (2016: £275 million) plus net cash flows from investing activities of £20 million (2016: £24 million) less net interest paid of £149 million (2016: £154 million) less debt extinguishment and restructuring costs of £33 million (2016: £23 million) less scheduled debt amortisation of £77 million (2016: £74 million) plus receipts from exercise of share options of £1 million (2016: £nil).

EBITDA

EBITDA represents earnings before finance costs, taxation, depreciation and amortisation.

Underlying EBITDA

Underlying EBITDA represents earnings before finance costs, taxation, depreciation and amortisation excluding non-underlying items. Non-underlying items that are excluded from underlying EBITDA include reorganisation costs and assignment premiums paid to a publican in order to take the assignment of a lease or to break a lease at any point other than at renewal during the period of our strategic review.

35. Alternative performance measures (Continued)

Underlying profit before tax

Underlying profit before tax excludes non-underlying items. Non-underlying items excluded from profit before tax include reorganisation costs, assignment premiums paid to a publican in order to take the assignment of a lease or to break a lease at any point other than at renewal during the period of our strategic review, the profit/loss on sale of property, the movement in valuation of the estate and related assets and costs incurred in respect of refinancing.

Underlying earnings per share (EPS)

Underlying EPS is based on profits after tax excluding non-underlying items as explained above.

Growth driving capital investment

Growth driving capital investment is discretionary capital cash spend on the Group's assets which is intended to generate incremental income at returns ahead of our target return on investment.

Maintenance and letting capital investment

Maintenance and letting capital investment is all capital cash spend that is not growth driving capital investment, typically focused on maintaining the quality of our assets and supporting the letting programme.

Return on investment

Return on investment is measured as the incremental income delivered as a result of the investment divided by the value of the capital investment.

Unplanned business failures

Unplanned business failures are all lease and tenancy agreements that do not reach their full term, where failure is not through the mutual agreement of ourselves and the departing publican. For example, through publican abandonment or via legal proceedings.

THE ISSUER

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£950,000,000 8.25% Senior Secured Notes due 2025