Registration number: 00024542

Mitchells & Butlers Retail Limited

Annual Report and Financial Statements

for the 52 weeks ended 25 September 2021

Mitchells & Butlers Retail Limited ("the Company") is a private company limited by shares and is a subsidiary company of Mitchells & Butlers plc. Mitchells & Butlers plc, along with its subsidiaries, form the Mitchells and Butlers group of companies ("the Group"). The address of the Company's registered office is shown in note 23.

The Directors present their Strategic Report for the 52 weeks ended 25 September 2021. The comparative period is for the 52 weeks ended 26 September 2020.

Business Model

Fair review of the business
The Company is a UK operator of pubs and restaurants with an estate of 1,272 managed outlets and 61 leased outlets at 25 September 2021 (2020 1,276 managed outlets and 61 leased outlets).

Revenue for the period was £772m (2020 £1,092m) with loss for the period before taxation of £18m (2020 loss of £72m). Taxation charged against the loss for the period was £6m (2020 £8m credited against the loss) leaving a loss after tax of £24m (2020 loss of £64m). The Company was in a net asset position of £3,197m (2020 £3,014m) at the period end.

This financial year continued to be dominated by the effects of Covid-19, with increased trading restrictions, including the introduction of regional tiers, resulting in reduced guest visits in the lead up to the second lockdown in England which commenced on 5 November 2020. Trading recommenced on 2 December 2020, but with even tighter restrictions within the regional tiers. Throughout December, as the new Covid-19 variant was discovered, restrictions became progressively tighter still, resulting in further site closures and significantly reduced trading over the important festive season. This was followed by the closure of the estate for the third time from 30 December 2020, ahead of the imposition of the wider national lockdown on 4 January 2021.

As with the first lockdown in March 2020 a number of measures were reintroduced in order to protect the business including:

- putting all of our employees on furlough;
- quickly reducing operating costs to the minimum required to keep the estate safe and secure; and
- halting all discretionary capital spend as part of the broader cash management plan.

Despite these measures, the liquidity position of the business deteriorated significantly over the first half of the financial year resulting in the issuing of new shares during March and April 2021, providing a much needed cash injection of £95m.

The business was allowed to reopen for outdoor trading only on 12 April 2021, with restrictions then easing during May allowing the business to fully reopen, both indoors and outdoors, at the end of that month.

As was the case in the prior year, the business needed to be flexible and adapt very quickly to the ever-shifting operational landscape. Of critical importance during this period was the safety of our people and our guests. Our well-tested Covid-19 secure procedures, including directional signing, sanitising stations, table spacing and disposable menus, were adopted by our teams with the aim of providing a safe environment, whilst still providing a hospitable and great experience for our guests.

Post reopening our biggest challenge was one of staffing, with high numbers of team members being notified of a requirement for them to isolate by the NHS Test & Trace system. The number of team members needing to isolate progressively grew through June and July, with the resultant knock-on effect on our ability to staff our businesses. On 16 August 2021, all Governments across the home nations relaxed the requirement to isolate for those who had been fully vaccinated, which broke the link between Covid-19 cases and the closure of our pubs.

Consumer trends such as home delivery have been accelerated and digital technology has become increasingly important. Order at table, now successfully rolled out across the majority of the estate, has been particularly popular with our pub brands.

We are grateful for the continued Government support which has been made available during this financial period, including the business rates holiday, reduced VAT on certain sales, Covid-19 Local Authority Grants and the Job Retention Scheme.

Business Model (continued)

Fair review of the business (continued)
We have maintained our focus on supporting our people during this last year, applying many of the lessons learnt from our work during the early part of the pandemic. These have included maintaining effective communication, either directly through one-to-one contact or via updates through social media. This has promoted a sense of community and togetherness across our businesses. We have also maintained our investment in the personal and professional development of our people through our digital learning hub, as well as ensuring that our teams were properly prepared with 'return to work' training for when their businesses reopened.

The recruitment and retention of staff has always been a priority for the business, and the recent well publicised shortage of talent entering the hospitality sector has sharpened our focus in this area. During the year we have:

- reignited our internal succession strategy to ensure that our people are developed at pace and their aspirations, capability and potential are harnessed;
- maintained apprenticeships as a significant part of our retention and succession strategy, with the aim of developing people to supervisory and management roles;
- replenished our chef academy learning roles; and
- piloted initiatives to fast-track external recruits from other sectors with transferable skills.

We now look forward to rebuilding the profitability of the business with the continued support of our teams.

Market supply
The unprecedented challenges the industry has faced have had a damaging impact on market supply, with a 8.6% decline in licensed premises since March 2020 according to the September AixPartners CGA Market Recovery Monitor. We believe the additional equity injection will leave us well placed to benefit from these changes in the current competitive landscape.

Our strategic priorities
Despite the impacts of Covid-19, the fundamental strengths of our business remain. In the short to medium term our priority will be on successfully trading the business in the current challenging environment, ensuring the safety of our team members and guests, and on growing the business back to, and beyond, the levels of trade that we were enjoying before Covid-19.

Ignite
Our Ignite programme of work remains at the core of our long-term value creation plans and we had refreshed the initiatives and opportunities available to us in early 2020. Our immediate focus will be on the successful rebuilding of trade following the extended periods of closure and we will be prioritising initiatives that support this, such as sales driving actions and the resumption of capital investment in our estate to maintain competitiveness. We remain confident in our ability to deliver long-term and sustained efficiencies and business improvements through the existing Ignite programme and will be working to refine and roll out new measures.

Outlook
Whilst uncertainty and challenges remain, we are encouraged by the demand that we have seen since reopening and the strong consumer confidence in our brands, which has supported a return to profitability and cash generation.

Key Performance Indicators
The performance of the Company is monitored as part of the wider Group. These performance indicators are discussed in the Annual Report and Accounts 2021 of Mitchells & Butlers plc and include staff turnover, net promoter score, same outlet like-for-like sales growth, incremental return on expansionary capital and adjusted operating profit.

Further explanation of the performance and reasons for the movements can be found in the Annual Report and Accounts 2021 of Mitchells & Butlers plc.

Principal risks and uncertainties
The Company's Directors consider the risks for the Company to be largely the same as the risks of the Group that are discussed in the Annual Report and Accounts 2021 of Mitchells & Butlers plc. Decisions on how to monitor and mitigate these risks are made for the Group as a whole. Risks relevant to the Company include, but are not restricted to the following:

- **Market risks**

Declining sales
There is a risk that concerns around consumer confidence, increased personal debt levels, squeezes on disposable income and rising inflation individually, together or in combinations, may adversely affect our market share and profitability, resulting in declining sales.

To mitigate this risk, the Group ensures the right team and structure is in place within each outlet to optimise the guest experience. In addition, daily, weekly and periodic sales reporting and monitoring is in place to enable a timely response to any decline in sales. There is also an increased focus on digital marketing activity as well as takeaway and delivery offerings in order to drive sales forwards. Sales training has also been made available for all Retail Management employees.

Consumer and market insight
If Mitchells & Butlers fails to manage and develop its brands in line with consumer needs and market trends due to failure to obtain or use sufficient insight in a timely manner, this may lead to a decline in sales and therefore profitability.

To mitigate this risk, the Group reviews guest feedback submitted in online guest satisfaction surveys. This feedback together with the results of research studies, is monitored and evaluated by a dedicated guest insight team to ensure that the Group's brands remain relevant to guests. The Group aims to reduce guest complaints by improving the local management of social media responses (e.g. TripAdvisor responses). In addition, the Group operates a consumer and market insight led process to innovate and develop new brands.

Pricing and market changes
External influences, such as changes in the general economic climate or competitor activity, could have a detrimental effect on consumers' spending patterns. In responding to these changes, there is a risk that the Group may not apply price changes intelligently, due to a lack of appreciation of market sensitivities and elasticities.

The Group performs regular monitoring and scrutiny of sales reporting in order to identify adverse trends sufficiently early in order to take remedial action. Each brand also has its own pricing strategy and price promotions are regularly monitored.

Consumer behaviour as a result of Covid-19
With the ongoing pandemic, consumers may have a different mindset to eating and drinking out, with health and safety at the forefront of their priorities. Guests may want greater insight into practices and food supply information in order to feel confident in their eating out experience.

This risk is mitigated by the Group continuing to prioritise the protection of both team members and guests. The Group already has strong health and safety practices which will continue to evolve in order to tackle the challenges we now face. We will be transparent with guests as to these measures and will communicate our expectations of guests to comply with the measures put in place.

We cautiously review the latest Covid-19 guidelines and continue to adapt our businesses in response.

Principal risks and uncertainties (continued)

- **Operational risks**

People planning and development
The Group has a strong guest focus, and as such it is important that it is able to attract, retain, develop and motivate the best people with the right capabilities. There is a risk that without the right people our customer service levels would be affected. There is also a continued risk of a lack of quality internal/external pipeline for key roles, resulting in open vacancies or poor-quality appointments which may lead to reduced quality of service and loss of sales. Despite Covid-19, this risk is driven predominantly by the declining number of non-UK applicants following the UK's departure from the EU and the restrictions which some non-UK employees face in moving to the UK to work, as a result of the pandemic border controls put in place.

The Group makes significant investment in training to ensure that its people have the right skills to perform their jobs successfully. Furthermore, an employee survey is conducted annually to establish employee satisfaction and engagement with the results of this being compared with other companies, as well as previous surveys. Where appropriate, changes in working practices are made in response to the findings of these surveys.

Remuneration packages are benchmarked to ensure that they remain competitive, and a talent review process is used to provide structured succession planning.

The apprenticeship programme will assist in mitigating against the increasing risk in relation to non-UK workers.

Business continuity and crisis management
There is a risk that the business could again be impacted by an enforced Government closure or the imposition of severe trading restrictions as a result of a regional/national/global pandemic or chemical/terrorist activity, which could adversely affect the business. The Group also relies on its food and drink supply chain and the key IT systems underlying the business to serve its guests efficiently and effectively. Supply chain interruption or IT system failure may restrict sales or reduce operational effectiveness.

Contingency plans are in place to review and respond to enforced Government actions and/or severe business disruption or trading restrictions. These plans are subject to regular formal reviews and include updated business closure and reopening processes; strong relationships with key suppliers to manage stock levels; established communication mechanisms for employees, guests and suppliers; and IT infrastructure, hardware and systems in place to support employees during periods of remote working.

The Group has in place crisis and continuity plans that are tested and refreshed regularly. We have assessed risks associated with remote working and are confident that this is suitably controlled.

Information security and disaster recovery
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. In addition, there are also increasing risks of cyber-attacks and non-compliance with GDPR.

A detailed external review of cyber security processes is performed on a regular basis in order to highlight any gaps and address any challenges. In order to mitigate these risks, the Group has a number of controls in place including; a cross-functional Information Security Steering Group; Group Assurance IT controls reviews; regular revision of appropriate cyber security governance policies and procedures; and systems controls to ensure GDPR compliance.

Food Supply Chain Safety
Malicious or accidental contamination in the supply chain can lead to food products being unfit for human consumption or potentially dangerous to consume. This leads to restrictions in supply which in turn may cause an increase in cost of goods and/or reduced sales due to consumer fears and/or physical harm to guests or employees.

The Group uses a number of technical partners to help prevent contamination. All food products are risk rated using standard industry definitions and take account of the way products are used within our kitchens. Suppliers are also risk rated according to their products, with each food supplier being audited annually in respect of safety and additionally in response to any serious food safety complaint or incident.

In addition, allergens are becoming an increased risk within the industry. As such, a robust response has been taken to manage allergens and the associated data within the menu cycle, coupled with a continuous review of controls to ensure these remain appropriate in order to maintain guest safety.

Principal risks and uncertainties (continued)

- **Operational risks (continued)**

Cost of goods price increases
The cost of drink and food items purchased for resale may increase due to changes in demand, legislation, exchange rates and/or production costs and/or uncertainty of supply. Any increase could lead to a decline in profitability.

Overall, cost increases are mitigated as the Group leverages its scale and competitive advantage and collaborates with suppliers to increase efficiencies within the supply chain. Regular reviews of retail and procurement strategies are also in place, supported by regular reporting of current and forecast inflation rates. The Group also completes regular range reviews of retail items to ensure the supply base is rationalised and consumer needs are met.

Although the tariff risk of a hard Brexit is now removed, the Group has experienced Brexit related cost pressures from food suppliers relating to import administration costs. This, combined with a volatile global food market, may result in higher food inflation levels than pre-Covid forecasts.

A number of key measures have been taken to mitigate Brexit risks, which include; buying ahead to reduce the increasing risk of a lack of availability of products; identifying contingency markets for alternative supply should this be required; review and update of key contracts to secure the most commercially effective supply of goods and pricing; and strong commercial relationships with key suppliers.

Wage Cost Inflation
There is a risk that increased costs associated with further increases to National Living Wage may adversely impact overall operational costs.

The Group continues to review the risks associated with complying with National Living Wage. Reviews are undertaken at a strategic level and seek to ensure that appropriate mitigating actions are in place, some of which are in relation to how the Group carefully manages productivity and efficiency across the estate.

- **Finance risks**

Borrowing covenants

There are risks that borrowing covenants are breached because of circumstances such as:
i. The continuation of disruption due to the Covid-19 pandemic;
ii. A change in the economic climate leading to reduced cash inflows or profits; or
iii. A material reduction in the valuation of the property portfolio.

During the prior period, we agreed waivers and amendments to the existing debt covenants, as a result of Covid-19 and the material trading restrictions imposed on the Group. In the current period, a series of further waivers and amendments have been obtained as described more fully in the Securitisation section of the Directors' report. As such, the Group has not breached any covenants in FY 2021.

The finance team conducts daily cash forecasting with periodic reviews at the Treasury Committee, the role of which includes ensuring that the Board Treasury Policy is adhered to, monitoring its operation and agreeing appropriate strategies for recommendation to the Board. In addition, regular forecasting and testing of covenant compliance is performed and frequent communication is maintained with the Securitisation Trustee.

- **Regulatory risks**

Failure to operate safely and legally
A major health and safety failure could lead to illness, injury or loss of life, and could cause significant damage to the Group's or a brand's reputation.

The Group maintains a robust programme of health and safety checks, both within its restaurants and pubs and throughout the supply chain. A number of technical partners are used, including food technologists, food safety experts, a microbiologist, allergy consultants and trading standards specialists etc., to ensure that our food procedures are safe. Regular independent audits of trading sites are performed to ensure that procedures are followed and that appropriate standards are maintained. Food suppliers are required to meet the British Retail Consortium Global Standard for Food Safety and are subject to regular safety and quality audits. Comprehensive health and safety training programmes are in place.

Confirmation of Directors' duties
The Directors have acted in a way that they considered, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole and in doing so have given regard, amongst other matters, to the following considerations in the decisions taken during the financial period ended 25 September 2021:

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

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

In carrying out these functions, the Board had regard to those stakeholders which it had identified as being of significant importance. These are the Company's shareholders, those employees of the Mitchells & Butlers Group who were likely to be affected by the activities of the Company (including their job security and entitlements in terms of pay, pensions and other benefits), guests who purchase goods and services provided by the Company, suppliers to the Company, whether they are external to the Mitchells & Butlers Group or within that group, governmental authorities such as HMRC and regulatory bodies, real estate property counterparties (whether as landlords or tenants) and those specific entities or individuals who are likely to be affected by the outcome of the relevant matter falling for consideration on a case-by-case basis. Due to the fact that the Board includes representatives of the Executive Committee and Leadership group of Mitchells & Butlers plc and its wider Group, many of the considerations dealt with by the Board of the Company in addressing its responsibilities under Section 172, and in taking into account the interests of stakeholders both externally to the Mitchells & Butlers Group and within that Group, are informed by the manner in which those matters are dealt with by the parent company and the wider Group. Notwithstanding this, the Board nonetheless seeks to discharge its responsibilities on a standalone company basis but, for obvious reasons, will take into account and weigh up in that assessment process the manner in which similar matters are dealt with on a Group basis.

Not all of those stakeholders' interests fall for consideration in each set of circumstances which the Board has to consider. However, as and when a particular matter falls for review by the Board, it first seeks to identify those stakeholders which are likely to be impacted by the decision of the Board, and then the Board discusses the respective interests of those stakeholders as well as the consistency (or otherwise) of the relevant proposal with the Board's existing, or any proposed change(s) to its, strategic plan.

Major matters considered by the Board during the year related primarily to the effect on the Company's business and its guests, employees and suppliers of the continued impact of the Covid-19 pandemic which involved various periods of closure of its trading sites and the imposition of different Tiers or Levels of restrictions on operations, differing across all of the jurisdictions in which the Company operated, and the subsequent reopening of the overwhelming majority of those sites, rent payments to be made to real estate property landlords, the effect of the financial support received from the UK Government under its various Coronavirus business support schemes and the assessment of the Company's financial position and its ability to continue to trade, incur credit and to pay its employees, suppliers and other creditors. This financial assessment led to the re-negotiation of various covenants and other terms in relation to the Company's securitisation arrangements as well as, in parallel, the issue of new shares during April and May 2021.

The Board had the benefit of a specific briefing from its external legal advisers on the duties and responsibilities of the Directors in relation to the challenges and unusual operating circumstances which were caused by the Covid-19 pandemic in FY 2020 and continued to keep that advice in mind throughout FY 2021, supplemented by further bespoke briefings by those legal advisers on the specific issues relating to the Company's financial position.

In considering the implications of the Covid-19 pandemic, the Board looked not only at the position and prospects of the Company, but also took into consideration the wider Mitchells & Butlers Group as a whole, in relation to the financing arrangements and the need to comply with the Company's obligations of its securitisation arrangements.

Confirmation of Directors' duties (continued)
Having identified the relevant stakeholders and their interests in relation to specific matters or particular circumstances, the Board then assessed the relevant weighting of those interests in considering and eventually reaching its conclusions. This was of particular importance in relation to its decisions relating to the closure of trading sites, furloughing of staff, accessing governmental support, amendments to trading arrangements with external suppliers and the financing of Group companies and agreements to new banking facilities and changes to existing debt arrangements. Similar assessments were also undertaken in relation to those periods of time when operational restrictions were imposed by various governmental authorities by reference to Tiers or Levels or other criteria and then, again, as the operational restrictions were gradually eased during the financial year.

In reaching its decisions, the Board was mindful of the need to seek to preserve the integrity of the Company's business so that it could trade successfully again after the impact of the Covid-19 pandemic had passed but that it would need to allocate its resources in such a way as to ensure creditors' interests and the interests of other stakeholders such as employees and guests were not prejudiced. This led to a need for allocation of cash resources in a prudent and carefully controlled way whilst ensuring that, over time, creditors received payment of amounts properly due.

Board papers set out the rationale for the proposals and the relevant decisions were made after discussion amongst the Board members with appropriate legal, accounting, HR and treasury input. The processes implemented by the Board included formal meetings to consider key developments as well as the provision, refreshed during the financial year, of training to Directors in relation to their responsibilities as directors of a limited company, including the responsibilities under Section 172 Companies Act 2006.

Specific consideration was given in the decision-making processes implemented by the Board to how the manner in which the Company operated, and the specific proposals it was asked to consider, aligned to its strategic goals. These goals, which in effect constitute the Company's principal activities as described in the business model on pages 1-2, remain the agreed purpose of the Company as confirmed by the Board.

The Board also confirmed that, in discharging its responsibilities for management, supervision and control of the Company's business and its affairs, it would seek to align to the Mitchells & Butlers Group PRIDE Values of Passion, Respect, Innovation, Drive and Engagement as set out at page 23 of the Mitchells & Butlers plc Annual Report and Accounts 2021.

Future Developments
The Company aims to deliver long-term sustainable value through organic growth. The strategy to achieve this goal has three core elements:

• Building a more balanced business to ensure exposure to the right market segments by having the correct trading brand or concept in each outlet, based on location, site characteristics and local demographics;

• Instil a more commercial culture by engaging our teams in delivering outstanding guest experiences and by acting quickly and decisively to remain competitive in our fast-changing marketplace; and

• Drive an innovation agenda, ensuring that our brands and formats remain fresh and relevant within their market segments, and by leveraging the increasing role that technology can play in improving guest experience.

Approved by the Board on 14 December 2021 and signed on its behalf by:

Gregory J. McMahon

G J McMahon
Director

Mitchells & Butlers Retail Limited

Directors' Report for the 52 weeks ended 25 September 2021

The Directors present their report on the affairs of the Company, together with the financial statements and independent auditor's report, for the 52 weeks ended 25 September 2021. The comparative period is for the 52 weeks ended 26 September 2020.

Details of future developments can be found in the Strategic Report on page 7.

The Company's Directors pay due regard to the need to foster the Company's business relationships with suppliers, guests and others.

Details of the Company's engagement process with various stakeholders and different tiers of suppliers, together with the effect of that regard on the principal decisions taken by the Company during the financial year are in line with those of the wider Mitchells and Butlers Group. Details of these processes are set out in the Strategic report on pages 6 to 7.

Dividends
Dividends paid during the period are disclosed in note 21. The Directors are proposing a final dividend of £nil (2020 £nil).

Financial risk and treasury management
Details of the Company's policy on addressing risks and details about financial instruments are given in note 16. The financial risks faced by the Company are identified and managed by the Group Treasury department.

Securitisation
Since November 2003, the Company has operated within the Mitchells & Butlers securitisation structure. Under this securitisation structure, the Company has borrowed £1,499m (2020 £1,617m) after amortisation, from Mitchells & Butlers Finance plc under an Issuer/Borrower Facility Agreement dated 13 November 2003, amended and restated on 15 September 2006. The borrowings (Term Advances) are secured on the Company's assets and future income streams therefrom. Mitchells & Butlers Finance plc is a fellow subsidiary within the Group and the issuer of secured loan notes to third party investors for the same amount.

The securitisation is governed by various covenants, warranties and events of default, including requirements to maintain free cash flow and net worth ratios. In addition, the Company has to satisfy certain conditions before it can pay dividends.

During the prior period, and as a result of the Covid-19 pandemic, material trading restrictions were imposed on the Mitchells and Butlers plc Group and the sector, including mandated closure for over three months. Mitigating action was swiftly taken and this included agreeing revised arrangements in the secured financing structure with the consent of the controlling creditor of the securitisation and the securitisation Trustee. As a result a series of amendments and waivers to the securitisation covenants were obtained, as detailed in the Mitchells & Butlers plc Annual Report and Accounts 2020.

During the current period a series of further amendments and waivers to the securitisation covenants were obtained as follows:

- a further waiver of, and amendment to, the 30 day suspension of business provision, where the suspension has arisen because of the ongoing enforced closure during the Covid-19 pandemic;

- a waiver of the two quarter look-back debt service coverage ratio test up until April 2022 and a waiver of the four quarter look-back debt service coverage ratio test up until July 2022, with both tests then performed at revised lower levels until full reinstatement in January 2023; and

- a waiver to facilitate drawings of up to £110m in total under the Liquidity Facility providing the Group with additional facilities in order to meet payments of principal and interest, provided such drawings are repaid in full at the end of December 2021.

In connection with the securitisation and under an Intra Group Supply Agreement dated 6 November 2003, Mitchells & Butlers Leisure Retail Limited (MAB Leisure Retail) has, since this date, procured the supply and distribution of the majority of goods, including food, beer, spirits and other drinks, for the Company. Under a Management Services Agreement dated 6 November 2003, MAB Leisure Retail has also, since this date, provided the Company with central management and administration services, for which the Company pays a management fee.

Going Concern
The financial statements have been prepared on a going concern basis, but with material uncertainty arising from the possible further impact of Covid-19. A full assessment of the going concern statement has been provided in note 1. As described in note 1, a material uncertainty exists, which may cast significant doubt over the Company's ability to trade as a going concern, in which case it may be unable to realise its assets and discharge its liabilities in the normal course of business. However, after due consideration the Directors have a reasonable expectation that the Company and the Group have sufficient resources to continue in operational existence for a period of at least twelve months from the date of approval of these financial statements. Accordingly, the financial statements continue to be prepared on the going concern basis.

In addition, the Directors of Mitchells & Butlers plc, the ultimate parent undertaking, have stated that they will continue to make funds available to the Company to enable it to meet its debts as they fall due for the foreseeable future, being a period of at least twelve months from the date of approval of the balance sheet.

Given the prevailing high level of unpredictability and uncertainty concerning the future incidence of the pandemic, the Directors are unable to conclude that the prospect of either a further lockdown or of material trading restrictions being imposed on the Group and the Company is remote. Accordingly, the financial statements continue to be prepared on the going concern basis, but with material uncertainty arising from the possible further impact of Covid-19 on the economy and the hospitality sector.

Directors of the Company
The Directors who held office during the period and up to the date of this report were as follows:

S K Martindale
L J Miles
A W Vaughan
G McMahon

Directors' indemnity
Throughout the period to which these financial statements refer, the Directors had the benefit of a Directors' and officers' liability insurance policy, the premium for which was paid by the Company's ultimate parent company, Mitchells & Butlers plc.

Employment policies
The Company seeks to ensure that every employee, without exception, is treated equally and fairly and that all employees are aware of their responsibilities. Our policies and procedures fully support our disabled colleagues.

We take active measures to do so via:
• a robust reasonable adjustment policy;
• disability-specific online resources (accessible via the Group's online recruitment system); and
• processes to ensure colleagues are fully supported.

The Company is responsive to the needs of its employees. As such, should any employee of the Company become disabled during their time with us, we will actively retrain that employee and make reasonable adjustments to their working environment where possible, in order to keep the employee with the Mitchells and Butlers Group of companies. It is the policy of the Company that the recruitment, training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee engagement
The Company engages with its employees in a number of ways including;

• a dedicated intranet for Retail Support team;
• line manager briefings;
• employee social media groups; and
• communications forums held by functions.

Details of the financial and economic factors affecting the performance of the Company are shared with all employees at the appropriate time using the methods listed above. We provide opportunities for employees to give their feedback to the Company in a number of ways, including engagement surveys for all employees and the Mitchells & Butlers Business Forum. Business Forum representatives collect questions from employees across the Company and put them to members of the Executive Committee. The questions and answers are published on the intranet.

Employees can participate in the success of the business through employee share schemes.

Disclosure of information to the auditor
The Directors who held office as at the date of approval of this Directors’ report confirm that so far as they are each aware, there is no relevant audit information of which the Company’s auditor is unaware; and that each Director has taken all the steps that they ought to have taken as a Director to be aware of any relevant audit information and to establish that the Company’s auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of s418 of the Companies Act 2006.

Appointment of auditor
A formal audit tender process was completed during the period, with KPMG LLP appointed as auditor to replace Deloitte LLP who will resign following completion of the FY 2021 audit.

Approved by the Board on 14 December 2021 and signed on its behalf by:

Gregory J. McMahon

G J McMahon
Director

Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". 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 Company and of the profit or loss of the 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 UK Accounting Standards have been followed; 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 transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor’s Report to the members of Mitchells & Butlers Retail Limited

Report on the audit of the financial statements

Opinion
In our opinion the financial statements of Mitchells & Butlers Retail Limited (the ‘Company’):

- give a true and fair view of the state of the Company’s affairs as at 25 September 2021 and of its loss for the 52 weeks then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 “Reduced Disclosure Framework”; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income Statement;
- the Statement of Comprehensive Income;
- the Balance sheet;
- the Statement of Changes in Equity; and
- the related notes 1 to 23.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 “Reduced Disclosure Framework” (United Kingdom Generally Accepted Accounting Practice).

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.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council’s (the ‘FRC’s’) Ethical Standard, 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.

Material uncertainty related to going concern
We draw attention to note 1 in the financial statements, which indicates that a material uncertainty exists on the Company’s future trading, due to the possible further impact of Covid-19. As stated in note 1, these events or conditions, along with the other matters as set forth in note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the Directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors’ assessment of the company’s ability to continue to adopt the going concern basis of accounting included:

- using modelling specialists to perform testing on the mechanical accuracy of the model used to prepare the Group’s cash flow forecast;
- considering the consistency of management’s forecasts with other areas of the audit;
- challenging the key assumptions within the going concern assessment. We have challenged with reference to the historical trading performance, current trading uncertainty, market expectations, Government announcements and peer comparison;
- obtaining an understanding of the financing facilities available to the Group, included understanding repayment terms and covenant definitions;
- assessing the impact of reverse stress testing on the Group’s funding position and covenant calculations, including the appropriateness of performance recovery assumptions;
- assessing the appropriateness of risk factors disclosed in the Company’s going concern statement and the financial impact of those risk factors; and
- challenging the sufficiency of the Company’s disclosures over the going concern basis and material uncertainty arising.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 course of 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 this gives rise to material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Directors
As explained more fully in the Directors' responsibilities statement, 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 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 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.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the Company's industry and its control environment, and reviewed the Company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the Company operates in, and identified the key laws and regulations that:
- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as tax, valuations, and IT regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud or non-compliance with laws and regulations in the following areas, and our specific procedures performed to address them are described below:
- Valuation of freehold and long leasehold property:
    - challenging management's external advisor on the appropriateness of the fair maintainable trade value used against Red Book guidance, the multiples adopted across the portfolio and the removal of the income shortfall deduction; and
    - using specialists to review a sample of spot valuations to assess the reasonableness of the attributed valuation.
    -

Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)

-
- Impairment of short leasehold properties, right-of-use assets and fixtures and fittings:
    - challenging the key assumptions utilised in the cash flow forecasts including reference to the historical trading performance, market expectations, and peer comparison; and
    - assessing the long-term growth rates and discount rates applied to the site cash flows by comparing the rates used to third party evidence; and
    - engaging our specialist modelling team to assist in auditing the integrity of the Excel model.
- Government assistance – Coronavirus Job Retention Scheme:
    - re-performing the claim value for a sample of employees including an assessment of whether the correct reference pay was used within the calculations and that the rules were applied appropriately based on information available at the time; and
    - agreeing the total CJRS grant income to bank statements and subsequent correspondence with HMRC.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by 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.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors' report.

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the Directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the Directors' report and from the requirement to prepare a strategic report.

We have nothing to report in respect of these matters.

Independent Auditor’s Report to the members of Mitchells & Butlers Retail Limited (continued)

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.

Scott Bayne FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom
14 December 2021

Mitchells & Butlers Retail Limited
Income statement for the 52 weeks ended 25 September 2021

	Note	52 weeks ended 25 September 2021 £m	52 weeks ended 26 September 2020 £m
Revenue	2	**772**	1,092
Other income	2	**163**	119
Operating costs	3	**(899)**	(1,104)
Separately disclosed items	4	**53**	(66)
OPERATING PROFIT		**89**	41
Finance income	6	**1**	-
Finance costs	7	**(108)**	(113)
LOSS BEFORE TAXATION		**(18)**	(72)
Tax (charge)/credit	8	**(6)**	8
LOSS FOR THE PERIOD		**(24)**	(64)

The above results are derived from continuing operations.

Mitchells & Butlers Retail Limited
Statement of Comprehensive Income
for the 52 weeks ended 25 September 2021

	Note	52 weeks ended 25 September 2021 £m	52 weeks ended 26 September 2020 £m
LOSS FOR THE PERIOD		**(24)**	**(64)**
Items that will not be reclassified subsequently to profit and loss:			
Unrealised gain/(loss) on revaluation of the property portfolio	9	**132**	**(134)**
Tax relating to items not reclassified	8	**(106)**	**(5)**
		26	**(139)**
Items that may be reclassified subsequently to profit and loss:			
Cash flow hedges:			
Gains/(losses) arising during the period	16	**51**	**(36)**
Reclassification adjustments for items included in profit or loss	16	**40**	**38**
Tax relating to items that may be reclassified	8	**(5)**	**6**
		86	**8**
OTHER COMPREHENSIVE INCOME/(EXPENSE) AFTER TAX		**112**	**(131)**
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD		**88**	**(195)**

The notes on pages 20 to 56 form an integral part of these financial statements.

Mitchells & Butlers Retail Limited

(Registration number: 00024542)

Balance sheet as at 25 September 2021

	Note	25 September 2021 £m	26 September 2020 £m
NON-CURRENT ASSETS			
Property, plant and equipment	9	**3,806**	3,685
Right-of-use assets	17	**121**	127
Investments in subsidiaries	11	**21**	21
Trade and other receivables	13	**1,639**	1,639
Finance lease receivables	17	**3**	4
Deferred tax asset	18	**-**	25
TOTAL NON-CURRENT ASSETS		**5,590**	5,501
CURRENT ASSETS			
Inventories	12	**14**	17
Trade and other receivables	13	**29**	19
Finance lease receivables	17	**1**	1
Current tax receivable		**3**	1
Cash and cash equivalents		**66**	63
TOTAL CURRENT ASSETS		**113**	101
TOTAL ASSETS		**5,703**	5,602
CURRENT LIABILITIES			
Trade and other payables	14	**(290)**	(250)
Borrowings	15	**(110)**	(119)
Lease liabilities	17	**(21)**	(24)
Derivative financial instruments	16	**(37)**	(40)
TOTAL CURRENT LIABILITIES		**(458)**	(433)
NET CURRENT LIABILITIES		**(345)**	(332)
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,245**	5,169
NON-CURRENT LIABILITIES			
Borrowings	15	**(1,389)**	(1,498)
Lease liabilities	17	**(139)**	(146)
Derivative financial instruments	16	**(171)**	(259)
Deferred tax liabilities	18	**(345)**	(250)
Provisions	19	**(4)**	(2)
TOTAL NON-CURRENT LIABILITIES		**(2,048)**	(2,155)
TOTAL LIABILITIES		**(2,506)**	(2,588)
NET ASSETS		**3,197**	3,014
Share capital	20	**146**	51
Hedging reserve	20	**(156)**	(242)
Revaluation reserve	20	**1,005**	979
Retained earnings	20	**2,202**	2,226
TOTAL EQUITY		**3,197**	3,014

Approved by the Board and authorised for issue on 14 December 2021. They were signed on its behalf by:

G J McMahon
Director

The notes on pages 20 to 56 form an integral part of these financial statements.

Mitchells & Butlers Retail Limited
Statement of Changes in Equity
for the 52 weeks ended 25 September 2021

	Share capital £m	Revaluation reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
At 29 September 2019	**4**	**1,115**	**(250)**	**2,304**	**3,173**
Loss for the period	-	-	-	(64)	(64)
Other comprehensive income/(expense)	-	(136)	8	(3)	(131)
Total comprehensive income/(expense)	-	(136)	8	(67)	(195)
Share capital issued	47	-	-	-	47
Tax on share-based payments	-	-	-	(1)	(1)
Dividends	-	-	-	(10)	(10)
At 26 September 2020	**51**	**979**	**(242)**	**2,226**	**3,014**
Loss for the period	-	-	-	(24)	(24)
Other comprehensive income	-	26	86	-	112
Total comprehensive income/(expense)	-	26	86	(24)	88
Share capital issued	95	-	-	-	95
At 25 September 2021	**146**	**1,005**	**(156)**	**2,202**	**3,197**

The notes on pages 20 to 56 form an integral part of these financial statements.

1. Accounting policies

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The nature of the Company's operations and its principal activities are set out in the Strategic Report.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to IFRS 2 share-based payments, requirements of IFRS 7 Financial Instruments: Disclosures, disclosure requirements of IFRS 13 Fair Value Measurement, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, IAS 36 Impairment of Assets and IAS 24 Related Party Disclosures. Where relevant, equivalent disclosures have been given in the Annual Report and Accounts 2021 of Mitchells & Butlers plc.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain freehold and long leasehold properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

The Company’s ultimate parent undertaking, Mitchells & Butlers plc includes the Company in its consolidated financial statements. The consolidated financial statements of Mitchells & Butlers plc are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public and may be obtained from the Company Secretary, Mitchells & Butlers plc, 27 Fleet Street, Birmingham B3 1JP.

Accounting reference date

The Company’s accounting reference date is 30 September. The Company draws up its financial statements to the Saturday directly before or following the accounting reference date, as permitted by section 390 (3) of the Companies Act 2006. The period ended 25 September 2021 and the comparative period ended 26 September 2020 both include 52 trading weeks.

Consolidation

The financial statements contain information about the individual Company and do not contain consolidated financial information as the parent of a group. The Company is exempt from preparing group accounts under S400 of Companies Act 2006 since the Company is a wholly owned subsidiary undertaking of another UK company. Group accounts are prepared by the ultimate parent company.

Going concern

The Directors have adopted the going concern basis in preparing these financial statements, but with material uncertainty arising from the possible further impact of Covid-19, after assessing the impact of identified principal risks and, in particular, the possible adverse impact on financial performance, specifically revenue and cash flows.

The Company’s financing is based on securitised debt which includes various covenants. Covenant amendments and waivers have been obtained as a result of Covid-19, as described in the securitisation section of the Directors’ report on page 8.

Significant judgements and base case

These revised financial arrangements provide a stronger platform for the business to meet uncertainty ahead, ensuring that liquidity is not expected to be a main concern during the going concern assessment period. The level of sales drives the EBITDA of the business which is a critical measure for covenant compliance tests. Following periods of enforced closure in response to the Covid-19 pandemic, substantially all of the Company’s sites have now been open for trading since May 2021. Since ‘Freedom Day’ in July 2021 this has been in an environment largely free of restrictions. Key judgements made by management in arriving at the level of future sales concern the depth, duration and continued recovery profile of the pandemic and therefore the level of sales that the business is able to achieve. To this end we assume that no further periods of mandated national or regional closure, or of material trading restrictions, will be enforced.

1. Accounting policies (continued)

Going concern (continued)

Significant judgements and base case (continued)
In reaching this assessment, the Directors have reviewed what they consider to be a plausible base case forecast scenario for the Group. Sales are assumed to largely recover to FY 2019 levels, supported in H1 by the 12.5% VAT rates on food and non-alcoholic drink for the 6 months from 1 October 2021. Stripping out the VAT benefit, this assumes sales are 5% below pre-Covid levels through H1 before moving back in line with pre-Covid sales in H2. In future years sales through FY 2023 are assumed to be 4.5% up on pre-Covid levels, with a further 3% increase in FY 2024.

Operating margins in FY 2022 are assumed to be lower than those pre-Covid, with notable cost inflation across food and utilities, labour costs (additional pay increases for certain roles suffering from supply shortage and a 6.6% NLW increase impacting hourly pay) and increased non-pub costs. Whilst some reversion in utility costs is assumed after FY 2022, these still remain well ahead of pre pandemic levels.

Under the base case forecast, the Group continues to remain profitable with no forecast breach of covenants.

Reverse stress test
The Company has also undertaken reverse stress test modelling, being the identification of that level of downside forecast at which the business model becomes unsustainable for either solvency or liquidity reasons.

In examining vulnerabilities, management have considered the performance in the forecast case above and made an adjustment to reflect sales growth rates in FY 2022 at 7.4% lower than the forecast alongside further increased levels of utilities costs, cost of goods increases and NLW wage increases. Very limited mitigation action is assumed other than labour costs flexing to reflect the lower level of sales volumes and lower bonus awards. In this scenario, solvency breach first occurs in Q4 of FY 2022 under the securitised four quarter look-back test. There is no issue in respect of liquidity headroom, in that existing facilities remain sufficient.

In the absence of further lockdown or material restrictions being imposed, the Directors believe that it is unlikely that the Company would experience sales shortfalls combined with cost increases, as set out in the reverse stress test, of a scale sufficient to result in a breach to its covenants over the review period. However, given the prevailing high level of unpredictability and uncertainty concerning the future incidence of the pandemic, the Directors are unable to conclude that the prospect of either such a further lockdown or of material restrictions being imposed is remote. As such a material uncertainty exists which may cast significant doubt over the Company's ability to trade as a going concern, in which case it may be unable to realise its assets and discharge its liabilities in the normal course of business. This uncertainty stems directly from the lack of forward visibility of potential restrictions that might be imposed in response to the pandemic such as enforced closure, minimum social distancing measures, limitations on party sizes, and reduced opening times, all of which have an impact on consumers' ability and willingness to visit pubs and restaurants and therefore the Company's operational performance translating to sales and EBITDA that determine the Company's continuing covenant compliance.

Any breach in covenants would result in a need for a further waiver of the banking covenants or for the Company to renegotiate its borrowing facilities, neither of which are fully within the Company's control. A breach of covenants would also result in the reclassification of £1,389m non-current borrowings to current borrowings. The Directors have, however, assessed that: given the strength of the underlying business including its property estate and brand portfolio; the Company's existing relationships with its main creditors; its historical success in obtaining covenant waivers and in raising finance; they believe that a waiver of the covenants or renegotiation of the facilities should be achievable.

Going concern statement
Notwithstanding the material uncertainty highlighted above, after due consideration the Directors have a reasonable expectation that the Company has sufficient resources to continue in operational existence for period of at least twelve months from the date of approval of these financial statements. Accordingly, the financial statements continue to be prepared on the going concern basis and do not include any adjustments that would result if the going concern basis were not appropriate.

1. Accounting policies (continued)

Critical accounting judgements and estimates
The preparation of the financial statements requires management to make judgements, estimates and assumptions in the application of accounting policies that affect reported amounts of assets, liabilities, income and expense.

Estimates and judgements are periodically evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. In the current period, there has been significant judgement around the going concern assessment, including estimation uncertainty in the forecasts used for this assessment. Full details are provided in the going concern review on pages 20 to 21.

The Company's other critical accounting judgements and estimates are described within the relevant accounting policy section in each of the notes to the financial statements.

Judgements and estimates for the period remain largely unchanged from the prior period.

Critical judgements are described in:
- Note 4 – Separately disclosed items
- Note 9 – Property, plant and equipment
- Note 13 – Trade and other receivables
- Note 17 – Leases

Key sources of estimation uncertainty are described in:
- Note 9 – Property, plant and equipment
- Note 17 – Leases

Adoption of new and revised Standards
The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standard and interpretation which have been adopted by the Company in these financial statements for the first time with the following impact.

Accounting standard	Effective date
Amendment to IFRS 16 Leases Covid 19-Related Rent Concessions (issued on 28 May 2020) and Covid-19 Related Rent Concessions beyond 30 June 2021 (effective 1 April 2021)	In May 2020, the IASB issued Covid-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of Covid-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a Covid-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the Covid-19-related rent concession applying IFRS 16 as if the change were not a lease modification. The practical expedient applies only to rent concessions occurring as a direct consequence of Covid-19 and only if all of the following conditions are met. (a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (b) Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and (c) There is no substantive change to other terms and conditions of the lease. In March 2021, the IASB extended the application date to allow lessee's to apply the practical expedient for any reduction in rent payments originally due on or before 30 June 2022. This change is effective for periods beginning on or after 1 April 2021, but can be adopted early. The Company has received £0.6m of Covid-19 related rent concessions. The resulting impact of this change on opening retained earnings and the current period income statement is disclosed in note 17.

1. Accounting policies (continued)

Adoption of new and revised Standards (continued)
None of the other standards and interpretations issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) and effective for the first time in the current period have had a material effect on the financial statements.

Revenue recognition
Revenue is measured based on the consideration to which the Company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognises revenue when it transfers control of a product or service to a customer.

Revenue – food and drink
The majority of revenue comprises food and drink sold in the Company's outlets. Revenue is recognised when control of the goods has transferred, being at the point the customer purchases the goods at the outlet. Payment of the transaction price is due immediately at the point the customer makes a purchase. Revenue excludes sales-based taxes, coupons and discounts.

Revenue – services
Revenue for services mainly represents income from gaming machines, hotel accommodation and rent receivable from unlicensed and leased operations. Revenue for gaming machines and hotel accommodation is recognised at the point the service is provided and excludes sales-based taxes and discounts.

Government grants
Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in the income statement on a systematic basis over the periods in which the Group recognises as expenses the related operating costs for which the grants are intended to compensate.

Coronavirus Job Retention Scheme (CJRS)
Under this scheme, HMRC reimburses up to 80% of the wages of certain employees who have been furloughed. The scheme is designed to compensate for staff costs, so amounts received are recognised in the income statement over the same period as the costs to which they relate. In the income statement, operating costs are shown net of grant income received. The scheme commenced on 20 March 2020 and continued until 30 September 2021.

Eat Out to Help Out
During August 2020, HMRC offered a 50% discount off food and non-alcoholic drinks, capped to £10 per person, when dining out between Monday and Wednesday. The Group participated in this scheme. In the income statement, food and drink revenue includes amounts received from HMRC in respect of the scheme.

Business rates
Businesses in the retail, hospitality and leisure sectors in England were granted 100% business rates relief for the 2020/2021 rates year, covering the period from 1 April 2020 to 31 March 2021. An additional 3 months of 100% business rates relief was granted to cover 1 April 2021 to 30 June 2021. Following this, business rates have been discounted by two-thirds from 1 July 2021 until 31 March 2022. However, this extended relief is capped at £2m for the Group.

Local Authority grants
Following the outbreak of the Covid-19 global pandemic in early 2020 and the subsequent forced closure of the business, the Mitchells & Butlers Group (MAB), under the Temporary Framework for State Aid for Covid-19 Responses (TF), has received a number of different areas of support from both local and central Government in the UK and also Germany. During the current period, the Group has applied for various Local Authority grants as a result of both local and national restrictions that required pubs and restaurants to close. Under these schemes, businesses in the retail, hospitality and leisure sectors in England and Germany are entitled to one-off cash grants for each business impacted. The maximum amount the Group is able to claim is £10.9m as a result of the State Aid cap.

1. Accounting policies (continued)

Separately disclosed items
In addition to presenting information on an IFRS basis, the Company also presents adjusted profit information that excludes separately disclosed items. Adjusted profitability measures are presented excluding separately disclosed items as we believe this provides management with useful additional information about the Company's performance and supports a more effective comparison of the Company's trading performance from one period to the next.

Separately disclosed items are those which are separately identified by virtue of their size or incidence and include movements in the valuation of the property portfolio as a result of the annual revaluation exercise, impairment review of short leasehold and unlicensed properties, impairment review of tenant's fixtures and fittings, impairment review of right-of-use assets, costs directly associated with the Government enforced closure of pubs as a result of the Covid-19 pandemic, gaming machine settlement of historic VAT, impairment of intercompany receivables and profit or loss on property disposals.

Finance costs
Finance costs are allocated over the term of the debt using the effective interest method. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating finance charges over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) over the expected life of the debt instrument, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Finance income
Finance income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Finance income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment
The majority of the Company's freehold and long leasehold licensed land and buildings, and the associated landlord's fixtures, fittings and equipment (i.e. fixed fittings) are revalued annually and are therefore held at fair value less depreciation. Tenant's fixtures and fittings (i.e. loose fixtures) within freehold and long leasehold properties, are held at cost less depreciation and impairment.

Short leasehold buildings (leases with an unexpired lease term of less than 50 years), unlicensed land and buildings and fixtures, fittings and equipment are held at cost less depreciation and impairment.

All land and buildings are disclosed as a single class of asset within the property, plant and equipment table, as we do not consider the short leasehold and unlicensed buildings to be material for separate disclosure. Non-current assets held for sale are held at their carrying value or their fair value less costs to sell where this is lower.

Depreciation
Depreciation is charged to the income statement on a straight-line basis to write off the cost less residual value over the estimated useful life of an asset and commences when an asset is ready for its intended use. Expected useful lives and residual values are reviewed each period and adjusted if appropriate.

Freehold land is not depreciated.

Freehold and long leasehold buildings are depreciated so that the difference between their carrying value and estimated residual value is written off over 50 years from the date of acquisition. The residual value of freehold and long leasehold buildings is reassessed each year and is estimated to be equal to the fair value determined in the annual valuation and therefore no depreciation charge is recognised.

Short leasehold buildings, and associated fixtures, fittings and equipment, are depreciated over the shorter of the estimated useful life or the unexpired term of the lease.

Fixtures, fittings and equipment have the following estimated useful lives:

Information technology equipment	3 to 7 years
Fixtures and fittings	3 to 20 years

At the point of transfer to non-current assets held for sale, depreciation ceases. Should an asset be subsequently reclassified to property, plant and equipment, the depreciation charge is calculated to reflect the cumulative charge had the asset not been reclassified.

1. Accounting policies (continued)

Property, plant and equipment (continued)

Disposals
Profits and losses on disposal of property, plant and equipment are calculated as the difference between the net sales proceeds and the carrying amount of the asset at the date of disposal.

Revaluation
The revaluation utilises valuation multiples, which are determined via third-party inspection of 20% of the sites such that all sites are individually valued approximately every five years; estimates of fair maintainable trade (FMT); and estimated resale value of tenant's fixtures and fittings. Properties are valued as fully operational entities, to include fixtures and fittings but excluding stock and personal goodwill. The value of tenant's fixtures and fittings is then removed from this valuation via reference to its associated resale value. Where sites have been impacted by expansionary capital investment in the preceding twelve months, FMT is taken as the post investment forecast, as the current period trading performance includes a period of closure.

Valuation multiples derived via third-party inspections determine brand standard multiples which are then used to value the remainder of the non-inspected estate via an extrapolation exercise, with the output of this exercise reviewed at a high level by management and the third-party valuer.

Where the value of land and buildings derived purely from a multiple applied to the fair maintainable trade misrepresents the underlying asset value, due to low levels of income or location characteristics, a spot valuation is applied.

Surpluses which arise from the revaluation exercise are included within other comprehensive income (in the revaluation reserve) unless they are reversing a revaluation deficit which has been recognised in the income statement previously; in which case an amount equal to a maximum of that recognised in the income statement previously is recognised in the income statement. Where the revaluation exercise gives rise to a deficit, this is reflected directly within the income statement, unless it is reversing a previous revaluation surplus against the same asset; in which case an amount equal to the maximum of the revaluation surplus is recognised within other comprehensive income (in the revaluation reserve).

Impairment
Short leasehold properties, unlicensed properties and fixtures and fittings are reviewed on an outlet basis for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised whenever the carrying amount of an outlet exceeds its recoverable amount. The recoverable amount is the higher of an outlet's fair value less costs to sell or value in use. Any changes in outlet earnings or cash flows, the discount rate applied to those cash flows, or the estimate of sales proceeds could give rise to an additional impairment loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised in the income statement immediately. An impairment reversal is only recognised where there is a change in the estimates used to determine recoverable amounts, not where it results from the passage of time.

Investments in subsidiaries
Investments in subsidiaries are stated at cost less any provision for impairment.

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand and other short-term highly liquid deposits with an original maturity at acquisition of three months or less. Cash held on deposit with an original maturity at acquisition of more than three months is disclosed as other cash deposits.

Trade receivables
Trade receivables and other receivables are recorded initially at transaction price and subsequently measured at amortised cost. This results in their recognition at nominal value less an allowance for any doubtful debts. The allowance for doubtful debts is recognised based on management's expectation of losses without regard to whether an impairment trigger happened or not (an "expected credit loss" model). The Company always measures the loss allowance for trade receivables at an amount equal to lifetime ECL.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Trade payables
Trade and other payables are initially recognised at fair value and subsequently recognised at amortised cost.

1. Accounting policies (continued)

Taxation
The income tax credit/expense represents both the income tax receivable/payable, based on losses/profits for the period, and deferred tax and is calculated using tax rates enacted or substantively enacted at the balance sheet date. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense which are not taxable. Income tax is recognised in the income statement except when it relates to items charged or credited directly to equity, in which case the income tax is also charged or credited to equity.

Deferred tax
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset realised based on tax laws and rates that have been substantively enacted at the balance sheet date.

The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities.

Group tax relief
It is the policy of the Mitchells & Butlers plc Group for no payment to be made for group tax relief received.

Borrowings
Borrowings are stated initially at fair value (normally the amount of the proceeds) net of issue costs. Thereafter they are stated at amortised cost using an effective interest basis. Finance costs, which are the difference between the net proceeds and the total amount of payments to be made in respect of the instruments, are allocated over the term of the debt using the effective interest method.

Provisions
Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are measured using the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

Onerous property provisions represent the expected unavoidable losses on onerous and vacant property leases and comprise the lower of the net lease commitments (fixed service charge) or the operating loss after service charge costs. The provision is calculated on a site-by-site basis with a provision being made for the remaining committed lease term, where a lease is considered to be onerous. Other contractual dilapidations costs are also recorded as provisions as appropriate.

1. Accounting policies (continued)

Leases

Company as lessee

The Company assesses whether a contract is or contains a lease, at inception of the contract.

The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the future lease payments unpaid at the lease commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise:
• Fixed lease payments (including in substance fixed payments), less any lease incentives receivable; and
• Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:
• The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a break option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
• The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
• A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, adjusted for any advance payments made at or before lease commencement, less any lease incentives received and any initial direct costs (including lease premiums).

Whenever the Company incurs an obligation to restore the underlying asset to the condition required by the terms and conditions of the lease, a dilapidations provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the remaining committed lase term on a straight-line basis. Right-of-use assets are tested annually for impairment in accordance with IAS 36 Impairment of Assets.

Right-of-use assets are subsequently remeasured for any changes in lease term and future committed rental payments.

For short-term leases (lease term of 12 months or less), and leases of low-value assets (such as personal computers and office furniture), the Company recognises a lease expense on a straight-line basis, directly in the income statement, as permitted by IFRS 16.

Impairment of right-of-use assets

Right-of-use assets are tested annually for impairment in accordance with IAS 36 Impairment of Assets, by comparing their recoverable amounts to their carrying values. Any resulting impairment relates to properties with poor forecast trading performance, where their estimated recoverable amount is insufficient to justify their current net book value. For practical reasons the impairment review of right-of-use assets is performed simultaneously with the impairment review of short leasehold properties classified within property, plant and equipment, as an individual site is a single cash generating unit (see note 9).

Recoverable amount is estimated with reference to both fair value and a value in use calculation which uses forecast trading performance cash flows.

1. Accounting policies (continued)

Leases

Company as lessor
The Company enters into lease agreements as a lessor with respect to some of its properties. The properties are operated as either licensed or unlicensed businesses by the tenants.

Leases for which the Company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. When the Company is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Dividends
Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

Pensions
The Company's income statement charge in respect of its defined contribution arrangements is equal to the contributions payable for the period.

Mitchells & Butlers plc, the sponsoring employer, accounts for pensions in accordance with IAS 19 Employee Benefits. Since there is no contractual agreement or policy in place to allocate the defined benefit plan across the subsidiaries that each employ members of these plans, which include the Company, the net defined benefit cost is recognised by Mitchells & Butlers plc.

The total liability in the Mitchells & Butlers plc pension plans, as measured on an IAS 19 basis, is recorded in the financial statements of Mitchells & Butlers plc, the sponsoring employer of the Mitchells & Butlers pension plans.

Share based payments
Share options and share awards are granted to employees of the Company by Mitchells & Butlers plc. Mitchells & Butlers plc accounts for share options and share awards in accordance with IFRS 2 Share-based Payment. The cost of such awards is measured at fair value, excluding the effect of non market-based vesting conditions, on the date of grant. The expense is recognised over the vesting period and is adjusted for the estimated effect of non market-based vesting conditions and forfeitures, on the number of shares that will eventually vest due to employees leaving the Company. Fair values are calculated using either the Black-Scholes, Binomial or Monte Carlo simulation models depending upon the conditions attached to the particular share scheme.

The Company's profit and loss account charge in respect of share-based payments represents an allocation of the overall charge incurred by the Group.

Financial instruments
Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial assets
All financial assets are recognised or derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Debt instruments that meet the following conditions are measured subsequently at amortised cost:
• the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
• the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

1. Accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

• the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

• the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The Company recognises a loss allowance for expected credit losses on financial assets where applicable. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial asset.

The Company adopts the simplified approach detailed in IFRS 9 and therefore recognises lifetime ECL for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial assets, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Definition of default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets are generally not recoverable when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company).

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

1. Accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)
Measurement and recognition of expected credit losses
The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

If the Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Company recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets
The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company does not retain substantially all the risks and rewards of ownership but continues to control a transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial Liabilities
The Company has financial liabilities relating to borrowings, for which the accounting policy is provided on page 26. Other financial liabilities are initially measured at fair value, net of transaction costs.

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

Derecognition of financial liabilities
The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability discharged and the consideration paid and payable is recognised in profit or loss.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating finance charges over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) over the expected life of the debt instrument, or where appropriate, a shorter period, to the amortised cost of a financial liability. Finance charges are recognised on an effective interest basis for all debt instruments.

1. Accounting policies (continued)

Financial instruments (continued)

Derivative financial instruments
The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate risks, including interest rate swaps.

Derivative financial instruments are initially measured at fair value on the contract date and are remeasured to fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the

Company has both the current legal right to offset and the intention to settle on a net basis or realise simultaneously. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Hedge accounting
The Company designates its derivative financial instruments i.e. interest rate swaps, as cash flow hedges. At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:
• there is an economic relationship between the hedged item and the hedging instrument;
• the effect of credit risk does not dominate the value changes that result from that economic relationship; and
• the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Company adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Company expects that some or all of the loss accumulated in the hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

Hedge accounting is discontinued only when the hedging relationship ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold or terminated. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in the hedging reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in the hedging reserve is reclassified immediately to profit or loss.

2. Revenue and other income

Revenue

Mitchells & Butlers Retail Limited is a wholly owned subsidiary of Mitchells & Butlers Retail Holdings Limited with its operations falling under a single class of business and all residing within the UK. As such the Company reports only a single business segment. Disclosures under IFRS 8 Segmental Reporting are only provided at a Group level and are available in the Mitchells & Butlers plc Annual Report and Accounts 2021.

Revenue is analysed as follows:

	52 weeks ended 25 September 2021 £m	**52 weeks ended 26 September 2020 £m**
Food	**425**	557
Drink	**320**	496
Services	**27**	39
Total revenue	**772**	1,092

Revenue from services includes rent receivable of £5m (2020 £6m) from leased operations.

Included within food and drink revenue for the 52 weeks ended 26 September 2020 is an amount of £23m (£20m food and £3m drink) received from the Government in relation to the Eat Out to Help Out Scheme, which operated during August 2020.

The Company has benefitted from a reduction in the rate of VAT from 20% to 5% on non-alcoholic sales which was introduced by the UK Government on 15 July 2020 and continued until 30 September 2021. Following this a rate of 12.5% applies for the subsequent six months until 31 March 2022. The estimated impact of this on food and drink revenue in the current period is £61m (2020 £23m).

Other income

Other income is analysed as follows:

	52 weeks ended 25 September 2021 £m	**52 weeks ended 26 September 2020 £m**
Government grant - Coronavirus Job Retention Scheme	**155**	119
Government grant – Local Authority Grants	**8**	-
Total other income	**163**	119

Coronavirus Job Retention Scheme

The Coronavirus Job Retention Scheme grant for the 52 weeks ended 25 September 2021 and the 52 weeks ended 26 September 2020 was received to contribute towards the cost of employee wages and salaries, social security costs and pensions. This was introduced by the UK government in response to the Covid-19 pandemic. The scheme commenced on 20 March 2020 and continued until 30 September 2021.

Local Authority Grants

Following the outbreak of the Covid-19 global pandemic in early 2020 and the subsequent forced closure of the business, the Mitchells & Butlers Group (MAB), under the Temporary Framework for State Aid for Covid-19 Responses (TF), has received a number of different areas of support from both local and central Government in the UK and also Germany. During the current period, the Group has applied for various Local Authority grants as a result of both local and national restrictions that required pubs and restaurants to close. Under these schemes, businesses in the retail, hospitality and leisure sectors in England and Germany are entitled to one-off cash grants for each business impacted. The maximum amount the Group is able to claim is £10.9m as a result of the State Aid cap.

Business Rates

In addition to the grants received above, during the prior period, the UK Government announced 100% rate relief for all pubs and restaurants for the business rates year 2020/2021, covering the period from 1 April 2020 to 31 March 2021. During the current period, the UK Government announced an additional 3 months of 100% business rates relief to cover 1 April 2021 to 30 June 2021 for properties in England. Following this, business rates have been discounted by two-thirds from 1 July 2021 until 31 March 2022 in England. However, this extended relief is capped at £2m for the Group. There has also been an extension of 100% rates relief for hospitality businesses in Scotland and Wales until 31 March 2022. The impact in the current period, across all sites within the UK, is an estimated saving of £59m (2020 £37m).

3. Operating costs

Operating costs are analysed as follows:	Note	52 weeks ended 25 September 2021 £m	52 weeks ended 26 September 2020 £m
Raw materials and consumables recognised as an expense		**177**	271
Changes in inventories of finished goods	12	**2**	3
Employee costs	5	**417**	455
Hire of plant & machinery		**7**	11
Operating lease expense - property[a]		**2**	3
Intercompany costs[b]		**60**	65
Other costs[c]		**145**	196
Depreciation of property, plant and equipment	9	**75**	85
Depreciation of right-of-use assets	17	**14**	15
Total operating costs		**899**	1,104

a. Property operating lease costs include service charge, insurance and turnover rents.
b. Intercompany costs represent the management service charge payable to Mitchells & Butlers Leisure Retail Limited. Mitchells & Butlers Leisure Retail Limited has reduced the management service charge to the Company in both the current and prior period due to the enforced period of closure of pubs following the breakout of the Covid-19 pandemic.
c. Other costs include the cost of business rates. During the current period, the UK Government announced 100% rate relief for all pubs and restaurants for the business rates year 2020/2021. The impact in the current period is an estimated saving of £59m (2020 £37m).

Fees paid to Deloitte LLP for the audit of the Company's financial statements were £0.32m (2020 £0.17m). The fee is borne on behalf of the Company by another Group company. Fees paid to Deloitte LLP and their associates for non-audit services are not disclosed for the Company since the Annual Report and Accounts 2021 of Mitchells & Butlers plc, the ultimate parent of Mitchells & Butlers Retail Limited discloses such fees on a consolidated basis.

4. Separately disclosed items

Critical accounting judgements
Judgement is used to determine those items which should be separately disclosed to allow a better understanding of the adjusted trading performance of the Company. This judgement includes assessment of whether an item is of sufficient size or of a nature that is not consistent with normal trading activities.

Separately disclosed items are identified as follows:

- Profit/(loss) arising on property disposals – property disposals are disclosed separately as they are not considered to be part of adjusted trade performance and there is volatility in the size of the profit/(loss) in each accounting period.
- Movement in the valuation of the property portfolio – this is disclosed separately, due to the size and volatility of the movement in property valuation each period, which can be partly driven by movements in the property market. This movement is also not considered to be part of the adjusted trade performance of the Company and would prevent year on year comparability of the Company's trading performance if not separately disclosed.
- Costs directly associated with the Government enforced closure of pubs as result of the Covid-19 pandemic. These costs are disclosed separately as they are not considered to be part of normal trading activities.
- A refund in relation to the settlement of a long-standing claim with HMRC regards gaming duty is separately disclosed due to its size.
- Impairment of amounts owed by group undertakings - this is disclosed separately, due to the size of the movement. This movement is also not considered to be part of the adjusted trade performance of the Company and would prevent year on year comparability of the Company's trading performance if not separately disclosed.

4. Separately disclosed items (continued)

The items identified are as follows:

	Note	52 weeks ended 25 September 2021 £m	52 weeks ended 26 September 2020 £m
Costs directly associated with Covid-19 and the enforced closure of pubs	a	**(3)**	(8)
Gaming machine settlement	b	**17**	12
Profit on disposal of properties		**1**	-
Reversal of impairment/(impairment) of intercompany receivable	c	**1**	(5)
Total separately disclosed items recognised within operating costs		**16**	(1)
Movement in the valuation of the property portfolio:			
Impairment reversal/(impairment charge) arising from the revaluation	d	**43**	(43)
Impairment of freehold and long leasehold tenant's fixtures and fittings	e	**(2)**	(7)
Impairment of short leasehold and unlicensed properties	f	**(1)**	(2)
Impairment of right-of-use assets	g	**(3)**	(13)
Net movement in the valuation of the property portfolio		**37**	(65)
Total separately disclosed items		**53**	(66)

a. Costs directly associated with the Covid-19 pandemic primarily relate to the disposal of stock items at site and within distribution depots that are beyond usable dates as a result of the Government enforced closure of pubs during periods of local and national lockdown. These costs are not considered to be part of normal trading activity.

b. The income of £12m in the prior period relates to a long-standing claim with HMRC, relating to VAT on gaming machines income pre-2005. HMRC first paid the Company £12m in May 2010 but following an appeal by HMRC, the Company repaid this in 2014. During the 52 weeks ended 26 September 2020, HMRC agreed to settle this amount with the Company. The amount recognised is the settlement value including interest.

   In the current period, a decision of a First-Tier tribunal in the case of the Rank Group Plc against HMRC, for the period post-2005, was given in favour of the taxpayers, with HMRC subsequently confirming it will not appeal against the decision and will now pay valid claims. As a result, the Company has resubmitted a claim to HMRC covering the period from 2005 to 2012 for VAT on gaming machine income. An estimate of the amount receivable, including interest, of £17m has been recognised in the current period based on the final adjusted settlement received from HMRC for the pre-2005 period.

c. In the prior period, in reviewing the lifetime expected credit loss of intercompany receivables, the Directors have concluded that an impairment of £5m should be recognised against the intercompany receivable from Mitchells and Butlers plc. In the current period, the Directors have concluded that £1m of this expected credit loss can be reversed. See note 13.

d. Impairment arising from the Company's revaluation of its freehold and long leasehold pub estate where the carrying values of the properties exceed their recoverable amount, net of a revaluation surplus that reverses past impairments. See note 9 for further details.

e. Impairment of freehold and long leasehold tenant's fixtures and fittings where their carrying values exceed their recoverable amounts. See note 9 for further details.

f. Impairment of short leasehold and unlicensed properties where their carrying values exceed their recoverable amount, net of any impairment reversal where carrying values have been increased to the recoverable amounts. See note 9 for further details.

g. Impairment of right-of-use assets where their carrying values exceed their recoverable amounts. See note 17 for further details.

5. Employee costs

	52 weeks ended 25 September 2021 £m	52 weeks ended 26 September 2020 £m
Wages and salaries	**386**	422
Social security costs	**23**	25
Pension costs, defined contribution scheme	**7**	7
Share-based payments[a]	**1**	1
Employee costs before Government grants[b]	**417**	455

a. Full disclosure of the share schemes in operation during the period, and their valuations, are provided in the Mitchells & Butlers plc Annual Report and Accounts 2021.

b. A government grant for the 52 weeks ended 25 September 2021 and the 52 weeks ended 26 September 2020 was received in relation to the Coronavirus Job Retention Scheme, to contribute towards the cost of employee wages and salaries, social security costs and pensions. This was introduced by the UK Government in response to the Covid-19 pandemic. The scheme commenced on 20 March 2020 and continued until 30 September 2021. The amount is reported within other income.

Average number of employees

The 4-weekly average number of persons employed by the Company during the period, including part time employees, was 28,712 (2020 31,824). All employees are retail employees.

Directors' remuneration

The four Directors (2020 four) who served during the period were all employed by another Group company (Mitchells & Butlers Leisure Retail Limited) and are also Directors of other subsidiary companies of the Mitchells & Butlers plc Group. The Directors received total remuneration of £0.9m (2020 £0.9m) in respect of their services to the Group, but it is not practical to allocate this between each of the subsidiary companies for which they act as a Director. At the period end four (2020 four) of the Directors were members of the Group's defined contribution scheme, with one (2020 one) Directors also holding accrued service within the Group's defined benefit scheme. During the period, three (2020 none) of the Directors were granted share options in the 'RSP' (Restricted Share Plan) scheme. In the prior period, three Directors were granted share options in the 'PRSP' (Performance Restricted Share Plan) scheme. Details of these schemes are disclosed in the Mitchells & Butlers plc Annual Report Accounts 2021.

The highest paid Director received emoluments of £0.3m (2020 £0.3m), with Company contributions to defined contribution pension schemes of £nil (2020 £nil). This Director was also granted share options in the RSP scheme in the period (2020 PRSP scheme).

Pensions

Retirement and death benefits are provided for eligible employees in the United Kingdom principally by the Mitchells & Butlers Pension Plan (MABPP) and the Mitchells & Butlers Executive Pension Plan (MABEPP). These plans are funded, HMRC approved, occupational pension schemes with defined contribution and defined benefit sections.

From 1 January 2013 Mitchells & Butlers plc implemented a workplace pension plan in line with the Workplace Pensions Reform Regulations. This automatically enrols all eligible workers into a Qualifying Workplace Pension Plan.

Defined contribution scheme

The Company's profit and loss account charge in respect of its defined contribution arrangements is equal to the contributions payable for the period.

In the 52 weeks ended 25 September 2021, the Mitchells & Butlers plc Group paid £13m (2020 £13m) in respect of the defined contribution arrangements. The pension charge in respect of the defined contribution arrangements included in the profit and loss account of the Company for the 52 weeks ended 25 September 2021 was £7m (2020 £7m).

Defined benefit scheme

The defined benefit section of the plan is now closed to future service accrual. The defined benefit liability relates to the MABPP and MABEPP funded plans, together with an unfunded unapproved pension arrangement (the Executive Top-Up Scheme, or MABETUS) in respect of certain MABEPP members. The assets of the plans are held in self-administered trust funds separate from the Company's assets.

5. Employee costs (continued)

Pensions (continued)

Defined benefit scheme (continued)

Measurement of assets and liabilities
Mitchells & Butlers plc has accounted for pensions in accordance with IAS 19 Employee Benefits (revised). The valuations used by Mitchells & Butlers plc for IAS 19 (revised) purposes are based on the results of the latest full actuarial valuation carried out at 31 March 2019 and updated by the schemes' qualified actuaries to 25 September 2021. Scheme assets are stated at market value at 25 September 2021 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. Full disclosure of assumptions and the valuation is provided in the Mitchells & Butlers plc Annual Report and Accounts 2021.

Minimum funding requirements
The results of the 2019 actuarial valuation showed a funding deficit of £293m, using a more prudent basis to discount the scheme liabilities than is required by IAS 19 (revised). As a result of the 2019 actuarial valuation, Mitchells & Butlers plc has subsequently agreed recovery plans for both the Executive and Main schemes in order to close the funding deficit in respect of its pension liabilities. The recovery plans show an unchanged level of cash contributions with no extension to the agreed payment term (£45m per annum indexed with RPI from 1 April 2016 subject to a minimum increase of 0% and maximum of 5%, until 31 March 2023). In the prior period, given the outbreak of the Covid-19 pandemic and the enforced temporary closure of the business at the end of March 2020, the Company agreed with the Trustee that contributions would be suspended for the months of April to September 2020, with these being added onto the end of the agreed recovery plan so that these contributions will be paid during the second half of FY 2023. Subsequent to the national lockdown which commenced on 5 January 2021, the Company agreed a further deferral of contributions covering January to March 2021 with these contributions subsequently being settled in full on 22 April 2021.

Under IFRIC 14, an additional liability is recognised such that the overall pension liability at the period end reflects the schedule of contributions in relation to a minimum funding requirement, should this be higher than the actuarial deficit. The Group IAS 19 (revised) deficit calculated on this basis, and recognised in the Mitchells & Butlers plc Annual Report and Accounts 2021, is £143m (2020 £193m).

In 2024, an additional payment of £13m will be made into escrow by the Group, should such further funding be required at that time. This is a contingent liability and is not reflected in the pension liability in the parent company financial statements as it is not committed.

6. Finance income

	52 weeks ended 25 September 2021 £m	52 weeks ended 26 September 2020 £m
Finance income external	**1**	-
Total finance income	**1**	-

7. Finance costs

	52 weeks ended 25 September 2021 £m	52 weeks ended 26 September 2020 £m
Intercompany interest on Term Advances	**100**	105
Liquidity facility fees reimbursed to Mitchells & Butlers Finance plc	**2**	2
Interest on lease liabilities	**6**	6
Total finance costs	**108**	113

8. Taxation

	52 weeks ended 25 September 2021 £m	52 weeks ended 26 September 2020 £m
Taxation – income statement		
Current taxation		
UK corporation tax	**-**	(5)
Amounts over provided in prior periods	**4**	3
Group relief received for nil payment	**-**	5
	4	3
Deferred taxation		
Origination and reversal of temporary differences	**1**	11
Adjustments in respect of prior periods	**(1)**	(1)
Tax charge in respect of change in UK tax rate	**(10)**	(5)
	(10)	5
Total tax (charged)/credited in the income statement	**(6)**	8

The standard rate of corporation tax applied to the reported profit is 19.0% (2020 19.0%). The tax in the income statement for the period is a higher charge (2020 lower credit) than the standard rate of corporation tax in the UK.

The differences are reconciled below:

	52 weeks ended 25 September 2021 £m	52 weeks ended 26 September 2020 £m
Loss before tax	**(18)**	(72)
Taxation credit at the UK standard rate of corporation tax of 19.0% (2020 19.0%)	**3**	14
Expenses not deductible	**-**	(2)
UK-UK transfer pricing - imputed interest income	**(7)**	(8)
Adjustments in respect of prior periods	**3**	2
Income not taxable	**5**	2
Group relief received	**-**	5
Effect of change in UK tax rate	**(10)**	(5)
Total tax (charge)/credit	**(6)**	8
Further analysed as tax relating to:		
Loss before tax and separately disclosed items	**14**	2
Separately disclosed items	**(20)**	6
	(6)	8

Factors which may affect future tax charges

The Finance Act 2020 maintained the main rate of corporation tax rate at 19.0% from 1 April 2020, overriding the Finance Act 2016. The effect of this change has been reflected in the closing deferred tax balances at 26 September 2020.

The Finance Act 2021 increased the main rate of corporation tax to 25.0% with effect from 1 April 2023. The effect of this change has been reflected in the closing deferred tax balances at 25 September 2021.

8. Taxation (continued)

	52 weeks ended 25 September 2021 £m	52 weeks ended 26 September 2020 £m
Taxation – Other comprehensive income		
Deferred tax:		
Items that will not be reclassified subsequently to profit or loss:		
Unrealised gains/losses due to revaluations – revaluation reserve	**(106)**	(2)
Unrealised gains/losses due to revaluations – retained earnings	**16**	2
Rolled over and held over gains – retained earnings	**(16)**	(5)
	(106)	(5)
Items that may be reclassified subsequently to profit or loss:		
Cash flow hedges	**(5)**	6
Total tax (charge)/credit recognised in other comprehensive income	**(111)**	1

9. Property, plant and equipment

Critical accounting judgements

Revaluation of freehold and long leasehold properties
The revaluation methodology is determined using management judgement, with advice from third-party valuers. The application of a valuation multiple to the fair maintainable trade of each site is considered the most appropriate method for the Company to determine the fair value of licensed land and buildings.

Where sites have been impacted by expansionary capital investment in the preceding 12 months, management judgement is used to determine the most appropriate source of site level FMT. The FMT is taken as the post investment forecast, as the current period trading performance includes a period of closure.

At the prior period reporting date of 26 September 2020, judgement was applied to determine the most appropriate measure of site level FMT. Given numerous trading restrictions impacting all sites as well as a significant period of mandated closure, FMT was determined by reference to the trading performance up to March 2020, the point of the first full lockdown following the emergence of Covid-19, in conjunction with the previous two years of trading performance.

At 25 September 2021, given further periods of enforced closure which have persisted throughout the majority of the first half of the financial year, the 52 week average trading performance to March 2020 is still considered to be the most appropriate measure of site level FMT.

In the prior period, CBRE reduced the property multiples for certain brands to take into account the expected market impact of Covid-19. Multiples have been reviewed at 25 September 2021 in conjunction with CBRE with increases recognised in some brands as a result of market conditions.

At the prior period reporting date of 26 September 2020, following the application of a valuation multiple to provide a site valuation, an income shortfall deduction was made to reduce the resulting property valuations by the difference between the FMT and the value of the Covid-19 impacted site annual forecast for FY 2021.This adjustment was included to reflect the short term rebuild in site FMT following the Covid-19 pandemic. This methodology is no longer considered necessary as CBRE have confirmed there is little market evidence to suggest purchasers are applying this type of discount. As such the income shortfall deduction has been removed in FY 2021.

Impairment review of short leasehold and unlicensed property and tenant's fixtures and fittings
For the short leasehold properties and tenant's fixtures and fittings impairment review, judgement has been applied to determine the most appropriate forecast to use as a result of the impact of Covid-19 on site profitability and cash flows.

Management apply judgement when allocating overhead costs to site cash flows, with an overhead allocation being made only for those costs that can be directly attributable to a site on a consistent basis. Site level forecasts, including the allocation of directly attributable overhead costs, have been used that formed the basis of the overall Group forecast for FY 2022 that was in place at the balance sheet date.

9. Property, plant and equipment (continued)

Key sources of estimation uncertainty
Revaluation of freehold and long leasehold properties
The application of the valuation methodology requires two key sources of estimation uncertainty; the estimation of valuation multiples, which are determined via third-party inspections including consideration of a multiple reduction for the impact of Covid-19; and an estimate of fair maintainable trade, including reference to historic and future projected income levels. The valuers also make reference to market evidence of transaction prices for similar properties. An adjustment to any of these assumptions could lead to a material change in the property valuation.

A sensitivity analysis of changes in valuation multiples and FMT, in relation to the properties to which these estimates apply, is provided on page 40. The carrying value of properties to which these estimates apply is £3,716m (2020 £3,585m).

Impairment review of short leasehold and unlicensed property and tenant's fixtures and fittings
The impairment review requires three key sources of estimation uncertainty in calculating the value in use: the estimation of forecast cash flows for each site; the selection of an appropriate discount rate and the selection of an appropriate long-term growth rate.

A sensitivity of changes in forecast cash flows, the discount rate and the long-term growth rate is provided on pages 40 to 41. The carrying value of assets to which these estimates apply is £86m (2020 £95m).

Property, plant and equipment can be analysed as follows:

	Land & buildings £m	Fixtures, fittings & equipment £m	Total £m
Cost or valuation			
At 26 September 2020	3,342	808	4,150
Additions	5	22	27
Disposals[a]	(5)	(93)	(98)
Revaluation and impairment	175	(3)	172
At 25 September 2021	**3,517**	**734**	**4,251**
Depreciation			
At 26 September 2020	58	407	465
Provided in the period	3	72	75
Disposals[a]	(2)	(93)	(95)
At 25 September 2021	**59**	**386**	**445**
Carrying amount			
At 25 September 2021	**3,458**	**348**	**3,806**
At 26 September 2020	3,284	401	3,685

a. Includes assets which are fully depreciated and have been removed from the fixed asset register.

All of the Company's property, plant and equipment pledged as security for the securitisation debt and over which there are certain restrictions on title.

9. Property, plant and equipment (continued)

Revaluation of freehold and long leasehold properties
The freehold and long leasehold properties have been valued at fair value, as at 25 September 2021, using information provided by CBRE, independent chartered surveyors. The valuation was carried out in accordance with the RICS Valuation – Global Standards 2020 which incorporate the International Valuation Standards and the RICS Valuation – Professional Standards UK (the 'Red Book') assuming each asset is sold as a fully operational trading entity. The fair value has been determined having regard to factors such as current and future projected income levels. As part of this, CBRE have taken into account the expected rebuild in trade following reopening as a result of Covid-19, as well as location, quality of the pub restaurant and recent market transactions in the sector. In the prior period, CBRE reduced the property multiples for the expected impact of Covid-19 prevailing at the balance sheet date. In the current period CBRE have selectively increased the property multiples to reflect the rebuild in trade following reopening in May 2021. However, the average multiple across the Mitchells & Butlers estate remains below the average applied pre Covid-19, incorporating an element of risk as trade rebuilds into FY 2022.

Sensitivity analysis
Changes in the FMT, the multiple or the income shortfall deduction could materially impact the valuation of the freehold and long leasehold properties.

FMT
As noted in the critical accounting judgements above, FMT has been determined by reference to the trading performance up to March 2020, the point of the first full lockdown following the emergence of Covid-19, in conjunction with the previous two years of trading performance. The average movement in FMT of revalued properties over the three financial periods, prior to March 2020, is 2.5%. It is estimated that, given the multiplier effect, a 2.5% change in the FMT of the freehold or long leasehold properties would generate an approximate £83m movement in their valuation.

Multiples
Valuation multiples are determined at an individual brand level. Over the last three financial periods, the weighted average brand multiple has moved by an average of 0.4. It is estimated that a 0.4 change in the multiple, would generate an approximate £151m movement in valuation.

Impairment review
The fair value of tenant's fixtures and fittings are removed from the valuation of freehold and long leasehold properties and are subsequently reviewed for impairment by comparing their recoverable amount to 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.

Short leasehold and unlicensed properties (comprising land and buildings and fixtures, fittings and equipment) which are not revalued to fair market value, are reviewed for impairment by comparing site recoverable amount to their 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.

Recoverable amount is determined as being the higher of fair value or value in use. Value in use calculations use forecast trading performance cash flows, which are discounted by applying a pre-tax discount rate of 9.6% (2020 9.9%) and a long-term growth rate of 2.0% (2020 0.0%). The long-term growth rate has been increased to 2.0% in the current period based on up to date economic data points and for consistency with the overall Group profit forecast.

Sensitivity analysis
Changes in forecast cash flows, the discount rate or the long-term growth rate could materially impact the impairment charge recognised for tenant's fixtures and fittings, short leasehold and unlicensed properties.

Forecast cash flows
The forecast cash flows used in the value in use calculations are site level forecasts that form the overall Company profit forecast for FY 2022, in existence at the balance sheet date. Management have determined a potential downside scenario to this forecast which assumes a longer turnaround of profit back to pre-Covid-19 levels. The use of this downside forecast results in a reduction to EBITDA in FY 2022 of 13.7% against the FY 2022 base case forecast. This would result in no increase to the impairment recognised.

Discount rate
The discount rate applied in the value in use calculations is the Company WACC. Over the last two financial periods, the discount rate used in impairment reviews has moved by 0.3%. It is estimated that a 0.3% increase or decrease in this rate, would result in no change to the impairment charge recognised.

9. Property, plant and equipment (continued)

Impairment review (continued)

Long-term growth rate
The long-term growth included in the value in use calculations is 2.0%. It is estimated that if the long term growth rate was reduced to 0.0%, the impairment charge would increase by £5m.

Current period valuations have been incorporated into the financial statements and the resulting revaluation adjustments have been taken to the revaluation reserve or income statement as appropriate. The impact of the revaluations/impairments described above is as follows:

	52 weeks ended 25 September 2021 £m	52 weeks ended 26 September 2020 £m
Income statement		
Revaluation deficit charged as an impairment	**(2)**	(80)
Reversal of past revaluation deficits	**45**	37
Total impairment arising from the revaluation	**43**	(43)
Impairment of short leasehold and unlicensed properties	**(1)**	(2)
Impairment of freehold and long leasehold fixtures and fittings	**(2)**	(7)
	40	(52)
Revaluation reserve		
Unrealised revaluation surplus	**134**	65
Reversal of past revaluation surplus	**(2)**	(199)
	132	(134)
Net increase/(decrease) in property, plant and equipment	**172**	(186)

The valuation techniques are consistent with the principles in IFRS 13 and use significant unobservable inputs such that the fair value measurement of each property within the portfolio has been classified as Level 3 in the fair value hierarchy. Disclosure of the key inputs to the valuation are provided in the consolidated Annual Report and Accounts 2021 of Mitchells and Butlers plc.

The split of the net book value of property, plant and equipment are as follows:

25 September 2021	Number of pubs	Net book value[a] £m
Freehold properties	**1,128**	**3,458**
Long leasehold properties	**81**	**258**
Total revalued properties	**1,209**	**3,716**
Short leasehold properties		**71**
Unlicensed properties		**15**
Assets under construction		**4**
Total property, plant and equipment		**3,806**

9. Property, plant and equipment (continued)

26 September 2020	Number of pubs	Net book value[a] £m
Freehold properties	1,128	3,335
Long leasehold properties	81	250
Total revalued properties	1,209	3,585
Short leasehold properties		79
Unlicensed properties		16
Assets under construction		5
Total property, plant and equipment		3,685

a. The carrying value of freehold and long leasehold properties based on their historical cost is £2,242m and £161m respectively (2020 £2,242m and £162m).

Assets in the course of construction
Cost at 25 September 2021 includes £4m (2020 £5m) of assets in the course of construction.

10. Commitments

Capital commitments
The total amount contracted for but not provided in the financial statements in relation to property, plant and equipment was £6m (2020 £4m).

11. Investments in subsidiaries

	£m
Cost	
At 25 September 2021 and 26 September 2020	**32**
Provision	
At 25 September 2021 and 26 September 2020	**11**
Carrying amount	
At 25 September 2021 and 26 September 2020	**21**

Details of the subsidiaries as at 25 September 2021 are as follows:

Name of subsidiary	Country of incorporation and place of business	Holding	Proportion of voting rights and shares held	Principal activity
Old Kentucky Restaurants Limited[a]	England and Wales	Ordinary shares	100%	Trademark Owner
Browns Restaurant (Brighton) Limited	England and Wales	Ordinary shares	100%	Dormant
Browns Restaurant (Bristol) Limited	England and Wales	Ordinary shares	100%	Dormant
Browns Restaurant (Cambridge) Limited	England and Wales	Ordinary shares	100%	Dormant
Browns Restaurant (London) Limited	England and Wales	Ordinary shares	100%	Dormant
Browns Restaurant (Oxford) Limited	England and Wales	Ordinary shares	100%	Dormant
Browns Restaurants Limited[a]	England and Wales	Ordinary shares	100%	Dormant

a. indicates direct investment of the Company

All of the above companies are registered at 27 Fleet Street, Birmingham, B3 1JP.

Investments have been tested for impairment by reviewing net asset values of subsidiary companies.

12. Inventories

	25 September 2021 £m	26 September 2020 £m
Finished goods and goods for resale	**14**	17

13. Trade and other receivables

Current trade and other receivables

	25 September 2021 £m	26 September 2020 £m
Trade receivables	**4**	2
Amounts owed from group undertakings	**1**	1
Prepayments	**1**	2
Coronavirus Job Retention Scheme receivable[a]	**-**	8
Gaming machine settlement receivable[b]	**17**	-
Other receivables	**6**	6
Total trade and other receivables	**29**	19

Non-current trade and other receivables

	25 September 2021 £m	26 September 2020 £m
Amounts owed from group undertakings	**1,639**	1,639
Total trade and other receivables	**1,639**	1,639

a. Amount due from HMRC in relation to the Coronavirus Job Retention Scheme, as described in note 5.
b. Expected claim amount due from HMRC in relation to a claim for VAT on gaming machines see note 4.

Amounts owed from fellow group undertakings are repayable on demand. Interest is not charged on all balances. Where interest is charged, it is charged at market rate, based on what can be achieved on corporate deposits.

Critical accounting judgements
Management have applied judgement when assessing the expected credit loss (ECL) on amounts owed by group undertakings. An assessment of the future trading cash flows and asset values of the subsidiaries has been made which also considers intercompany transactions between group companies.

The Directors consider that the carrying amount of trade receivables, amounts owed from group undertakings and other receivables approximately equates to their fair value. A lifetime ECL of £3m (2020 £3m) has been recognised against trade receivables and £4m (2020 £5m) against amounts owed from group undertakings.

Credit risk is described in note 16.

14. Trade and other payables

	25 September 2021 £m	26 September 2020 £m
Accrued charges	**60**	64
Social security and other taxes	**34**	34
Deferred income	**13**	11
Other payables	**10**	10
Amounts owed to group undertakings[a]	**173**	131
Total trade and other payables	**290**	250

a. Amounts owed to fellow subsidiary undertakings are repayable on demand. Interest is not charged on all balances. Where interest is charged, it is charged at market rate, based on what can be achieved on corporate deposits.

The Directors consider that the carrying amount of trade and other payables approximately equates to their fair value.

15. Borrowings

	25 September 2021 £m	26 September 2020 £m
Maturity profile		
Amounts falling due within one year	**110**	119
Amounts falling due after more than one year:		
Between one and two years	**114**	108
Between two and five years	**390**	368
After five years	**885**	1,022
	1,389	1,498
Total borrowings	**1,499**	1,617

Term advances from Mitchells & Butlers Finance plc

Under an Issuer/Borrower Facility Agreement dated 13 November 2003, amended and restated on 15 September 2006, the Company borrowed £1,900m from Mitchells & Butlers Finance plc.

On 15 September 2006, the Company borrowed a further £655m from Mitchells & Butlers Finance plc on substantially the same terms as the original Term Advances. At the same time, the original A1 and A3 Term Advances were repaid and reissued as A1N and A3N Term Advances.

Term advances from Mitchells & Butlers Finance plc

At 25 September 2021 the Term Advances consisted of ten tranches as follows:

Tranche	Initial principal lent £m	Interest	Principal repayment period (all by instalments)	Effective interest rate %	Principal outstanding at 25 September 2021 £m	Principal outstanding at 26 September 2020 £m	Expected weighted average life[b] (years)
A1N	200	Floating	2011 to 2028	6.61[a]	99	110	4 years
A2	550	Fixed – 5.58%	2003 to 2028	5.72	180	201	4 years
A3N	250	Floating	2011 to 2028	6.69[a]	124	138	4 years
A4	170	Floating	2016 to 2028	6.37[a]	116	128	4 years
AB	325	Floating	2020 to 2032	6.28[a]	305	319	7 years
B1	350	Fixed – 5.98%	2003 to 2023	6.12	46	69	1 years
B2	350	Fixed – 6.02%	2015 to 2028	6.12	270	284	5 years
C1	200	Fixed – 6.48%	2029 to 2030	6.56	200	200	8 years
C2	50	Floating	2033 to 2034	6.47[a]	50	50	12 years
D1	110	Floating	2034 to 2036	6.68[a]	110	110	14 years
	2,555				**1,500**	**1,609**	

a. Effective interest on floating rate notes is stated after the effect of interest rate swaps.
b. The expected remaining weighted average life is based on the Term Advances being held to maturity.

15. Borrowings (continued)

In order to mitigate the interest rate risk inherent in the floating rate Term Advances, the Company entered into interest rate hedging arrangements with Mitchells & Butlers Finance plc which fix the interest rates payable.

At 25 September 2021 interest and margin is payable on the floating rate Term Advances as follows:

Tranche	Interest	Margin
A1N	3 month LIBOR	0.46%
A3N	3 month LIBOR	0.46%
A4	3 month LIBOR	0.59%
AB	3 month LIBOR	0.61%
C2	3 month LIBOR	1.89%
D1	3 month LIBOR	2.14%

The carrying value of the Term Advances is analysed as follows:

	25 September 2021 £m	26 September 2020 £m
Principal outstanding at start of period	**1,609**	1,698
Principal repaid during the period	**(109)**	(89)
Principal outstanding at end of period	**1,500**	1,609
Deferred issue costs	**(3)**	(4)
Accrued interest	**2**	12
Carrying value at end of period	**1,499**	1,617

The Term Advances are secured on the Company's assets and future income streams therefrom.

The securitisation is governed by various covenants, warranties and events of default, many of which apply to the Company, being the Group's main operating subsidiary. These include covenants regarding the maintenance and disposal of securitised properties and restrictions on its ability to move cash, by way of dividends for example, to other Group companies.

During the prior period, and as a result of the Covid-19 pandemic, material trading restrictions were imposed on the Mitchells and Butlers plc Group and the sector, including mandated closure for over three months. Mitigating action was swiftly taken and this included agreeing revised arrangements in the secured financing structure with the consent of the controlling creditor of the securitisation and the securitisation Trustee. As a result a series of amendments and waivers to the securitisation covenants were obtained, as detailed in the Mitchells & Butlers plc Annual Report and Accounts 2020.

During the current period a series of further amendments and waivers to the securitisation covenants were obtained as follows:

- a further waiver of, and amendment to, the 30 day suspension of business provision, where the suspension has arisen because of the ongoing enforced closure during the Covid-19 pandemic;
- a waiver of the two quarter look-back debt service coverage ratio test up until April 2022 and a waiver of the four quarter look-back debt service coverage ratio test up until July 2022, with both tests then performed at revised lower levels until full reinstatement in January 2023; and
- a waiver to facilitate drawings of up to £110m in total under the Liquidity Facility providing the Group with additional facilities in order to meet payments of principal and interest, provided such drawings are repaid in full at the end of December 2021.

At 25 September 2021, the Company had cash and cash equivalents of £66m (2020 £63m) which were governed by the covenants associated with the securitisation. Of these amounts £1m (2020 £1m), representing disposal proceeds, was held on deposit in an account over which there are a number of restrictions. The use of this cash requires the approval of the securitisation trustee and may only be used for certain specified purposes such as capital enhancement expenditure and business acquisitions.

16. Hedging Instruments

Financial risk management and impairment of financial assets
Financial risk is managed by the Group's Treasury function. The Group's Treasury function is governed by a Board Approved Treasury Policy Statement which details the key objectives and policies for the Group's treasury management. The Treasury Committee ensures that the Treasury Policy is adhered to, monitors its operation and agrees appropriate strategies for recommendation to the Board. The Treasury Policy Statement is reviewed annually, with recommendations for change made to the Board, as appropriate. The Group Treasury function is operated as a cost centre and is the only area of the business permitted to transact treasury deals. It must also be consulted on other related matters such as the provision of guarantees or the financial implications of contract terms.

The main financial risks which impact the Group result from funding and liquidity risk, credit risk, capital risk and market risk, principally as a result of changes in interest and currency rates. Derivative financial instruments, principally interest rate and foreign currency swaps, are used to manage market risk. Derivative financial instruments are not used for trading or speculative purposes.

Funding and liquidity risk
In order to ensure that the Company's long-term funding strategy is aligned with its strategic objectives, the Treasury Committee regularly assesses the maturity profile of the Company's debt, alongside the prevailing financial projections. This enables it to ensure that funding levels are appropriate to support the Company's plans.

The current funding arrangements of the Company consist of the securitised notes issued by Mitchells & Butlers Finance plc (and associated liquidity facility). The terms of the securitisation and the revolving credit facilities contain various financial covenants. Details of covenant amendments and waivers obtained as a result of the Covid-19 pandemic to mitigate the risk to liquidity are provided in the going concern review in note 1. Compliance with these covenants is monitored by Group Treasury.

The Company prepares a rolling daily cash forecast covering a six week period and an annual cash forecast by period. These forecasts are reviewed on a daily basis and are used to manage the investment and borrowing requirements of the Company. The Company maintains sufficient cash balances or committed facilities outside the securitisation to ensure that it can meet its medium-term anticipated cash flow requirements.

Credit risk and impairment
The Company is exposed to risk against counterparties to its financial assets from its derivative financial instruments which are used for risk management purposes and the investment of surplus funds. To mitigate this exposure, the Group Treasury function operates policies that restrict the investment of surplus funds and the entering into of derivative transactions to counterparties that have an appropriate credit rating. Counterparties may also be required to post collateral with the Group where their credit rating falls below a predetermined level.

The amount that can be invested or transacted at various ratings levels is restricted under the policy. To minimise credit risk exposure against individual counterparties, investments and derivative transactions are entered into with a range of counterparties. The Group Treasury function reviews credit ratings, as published by Moody's, Standard & Poor's and Fitch Ratings, current exposure levels and the maximum permitted exposure at given credit ratings, for each counterparty on a daily basis. Any exceptions are required to be formally reported to the Mitchells & Butlers Treasury Committee on a four weekly basis.

Credit risk on trade receivables and other receivables is considered to be a low-level risk. Trade receivables and other receivables mainly represent amounts due from tenants of unlicensed properties, amounts due from Company suppliers and cash collateral deposits held by third parties.

Credit exposure relating to tenants is considered to be low risk, with an expected lifetime credit loss calculated at the period end to reflect the risk of irrecoverable amounts. To minimise credit risk new tenants are assessed using an external credit rating system before they are approved for tenancy. Credit exposure is reduced for the amounts due from Company suppliers as the Company holds offsetting amounts in trade and other payables that are due to some of these suppliers. Credit risk on cash collateral deposits held by third parties are considered to be low credit risk as they are held with reputable banking institutions by third parties.

Credit risk on amounts owed from group undertakings is considered to be low risk. Mitchells & Butlers plc, the ultimate parent company provides a guarantee to subsidiary undertakings to enable them to meet debts as they fall due. The Directors also perform an assessment of the amounts owed from group undertakings and recognise any expected credit loss, where applicable.

16. Hedging Instruments

Credit risk and impairment (continued)

The Company's credit exposure as at 25 September 2021 was:

	12 month ECL 2021 £m	Lifetime ECL 2021 £m	Total 2021 £m	Total 2020 £m
Cash and cash equivalents	**66**	**-**	**66**	63
Trade receivables	**-**	**4**	**4**	2
Other receivables	**6**	**-**	**6**	6
Amounts owed by group undertakings	**-**	**1,639**	**1,639**	1,639

Market risk
The Company is exposed to the risk that the fair value of future cash flows of its financial instruments will fluctuate because of changes in market prices. Market risk includes two types of risk: interest rate risk and currency risk.

Interest rate risk
The Company has a mixture of fixed and floating interest rate debt instruments and manages the variability in cash flows resulting from changes in interest rates by using derivative financial instruments. The Company minimises the volatility in its financial statements through the adoption of the hedge accounting provisions permitted under IFRS 9. The interest rate exposure resulting from the Company's Term Advances from Mitchells & Butlers Finance plc is fixed, either as a result of the notes themselves being issued at fixed interest rates, or through a combination of floating rate notes against which 100% effective interest rate swaps are held, which are eligible for hedge accounting.

A number of the Company's financial instruments have LIBOR as their reference rate. The Company has now completed the necessary amendments to transition its financing arrangements in advance of the discontinuation of LIBOR as a floating reference rate, replacing LIBOR with a Sterling Overnight Index Average (SONIA) based rate. The amendments in respect of the securitised bonds were agreed by the Bondholders through a formal consent solicitation process and bilateral agreements were reached with securitised swap and liquidity facility providers (using amended reference rates consistent with those agreed under the bonds). The transition to reference SONIA will be effective for periods commencing on or after 1st January 2022.

Foreign exchange risk
The Company has no significant profit and loss exposure as a result of retranslating monetary assets and liabilities at different exchange rates. As the Company has no material exposure to movements in interest or exchange rates, no sensitivity analysis has been disclosed.

Maturity of cash flows
The maturity table below details the contractual undiscounted cash flows (both principal and interest), based on the prevailing period end interest rates, for the Company's financial liabilities, after taking into account the effect of interest rate swaps.

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
25 September 2021							
Term Advances	**(164)**	**(166)**	**(168)**	**(171)**	**(173)**	**(982)**	**(1,824)**
Interest rate swaps	**(37)**	**(34)**	**(32)**	**(29)**	**(26)**	**(109)**	**(267)**
Fixed rate: Term Advances	**(201)**	**(200)**	**(200)**	**(200)**	**(199)**	**(1,091)**	**(2,091)**
26 September 2020							
Term Advances	(177)	(164)	(166)	(168)	(171)	(1,155)	(2,001)
Interest rate swaps	(40)	(37)	(35)	(32)	(29)	(135)	(308)
Fixed rate: Term Advances	(217)	(201)	(201)	(200)	(200)	(1,290)	(2,309)

16. Hedging Instruments (continued)

Cash flow hedges
Changes in the fair value of cash flow hedges are recognised directly in the hedging reserve in equity to the extent that the hedges are effective. The cash flow hedges have been assessed as being highly effective during the financial period and are expected to remain highly effective over the remaining contract lives. The following amounts have been recognised during the period:

	52 weeks ended 25 September 2021 £m	52 weeks ended 26 September 2020 £m
Gains/(losses) arising during period	**51**	(36)
Reclassification adjustments for losses included in profit or loss	**40**	38
Net movement in cash flow hedges recognised in equity	**91**	2

The Company holds six interest rate swaps with Mitchells & Butlers Finance plc. These are designated as a hedge of the cash flow and principal interest rate risk of the Company's floating rate Term Advances, comprising the A1N, A3N, A4, AB, C2 and D1 Term Loans.

The six interest rate swaps held with Mitchells & Butlers Finance plc have a nominal value of £803m (2020 £855m). These are designated as a hedge of the cash flow and principal interest rate risk of £803m (2020 £855m) of the Company's floating rate Term Advances, comprising the A1N, A3N, A4, AB, C2 and D1 Term Loans. The cash flows occur quarterly, receiving a fixed rate of interest of 4.82% (2020 4.85%) and paying a floating rate of interest based on LIBOR. The contract maturity dates match those of the hedged item. No hedge ineffectiveness on the interest rate swaps was recognised in profit or loss in the current or prior period.

The fair value and carrying value of financial assets and liabilities by category is as follows:

	25 September 2021		26 September 2020	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Financial assets at amortised cost:				
- Cash	**66**	**66**	63	63
- Trade receivables	**4**	**4**	2	2
- Other receivables	**6**	**6**	6	6
- Gaming machine settlement receivable	**17**	**17**	-	-
- Coronavirus Job Retention scheme receivable	**-**	**-**	8	8
- Finance lease receivables	**4**	**4**	5	5
- Amounts owed from group undertakings	**1,639**	**1,639**	1,639	1,639
Financial liabilities at amortised cost:				
- Borrowings	**(1,499)**	**(1,499)**	(1,617)	(1,617)
- Lease liabilities	**(160)**	**(160)**	(170)	(170)
- Other payables	**(10)**	**(10)**	(10)	(10)
- Accrued charges	**(60)**	**(60)**	(64)	(64)
- Amounts owed to group undertakings	**(173)**	**(173)**	(131)	(131)
Financial liabilities – derivatives at FVTPL:				
- Intercompany interest rate swaps	**(208)**	**(208)**	(299)	(299)

The fair value of the interest rate swaps is the estimated amount the Company could expect to pay or receive on termination of the agreement. These amounts are based on the valuations of the corresponding external swaps in the Group which are based on the quotations from counterparties and take into consideration interest rates prevailing at the balance sheet date. Other financial assets and liabilities are either short-term in nature or their book values approximate to fair values.

16. Hedging Instruments (continued)

Derivative financial instruments
IFRS 13 Financial Instruments requires the Company's derivative financial instruments to be disclosed at fair value and categorised in three levels according to the inputs used in the calculation of their fair value:
- Level 1 instruments use quoted prices as the input to fair value calculations;
- Level 2 instruments use inputs, other than quoted prices, that are observable either directly or indirectly;
- Level 3 instruments use inputs that are unobservable.

	Total liabilities	
	Less than one year £m	More than one year £m
25 September 2021		
Intercompany interest rate swaps	**(37)**	**(171)**
26 September 2020		
Intercompany interest rate swaps	(40)	(259)

The cash flow hedges are all classified as Level 2 being fair value measurements derived from inputs other than quoted prices that are observable for assets or liabilities.

17. Leases

Critical accounting judgements

Lease liabilities
Determination of the remaining committed lease term requires judgement where tenant break options or options to extend a lease exist.

Impairment of right-of-use assets
Judgement is also required when assessing whether a right-of-use asset should be impaired. As impairment is considered at a cash generating unit level, with this being an individual outlet, the carrying value used in the impairment test, is the total of the right-of-use asset value and the value held in property, plant and equipment. As such, the judgements used in the impairment review are the same as those described in note 9.

Key sources of estimation uncertainty
As noted above, the impairment review of right-of-use assets is performed in combination with the impairment review of property, plant and equipment. The three key sources of estimation uncertainty are described in note 9. They are, the estimation of forecast cash flows for each site; the selection of an appropriate discount rate and the selection of an appropriate long-term growth rate.

A sensitivity of changes in forecast cash flows, the discount rate and the long-term growth is provided on pages 50 to 51. The carrying value of assets to which these estimates apply is £121m.

17. Leases (continued)

Right-of-use assets

Right-of-use assets can be analysed as follows:

	Land & buildings £m
Cost	
At 26 September 2020	174
Additions[a]	12
Disposals	(1)
At 25 September 2021	185
Accumulated depreciation and impairment	
At 26 September 2020	47
Provided during the period	14
Disposals	-
Impairment	3
At 25 September 2021	64
Net book value	
At 25 September 2021	121
At 26 September 2020	127

a Additions to right-of-use assets include any new leases and lease extensions or any rent reviews relating to existing leases.

The Company accounts for short-term leases in accordance with the recognition exemption in IFRS 16, and hence, related payments are expensed as incurred. Expenses from short-term leases amount to £nil (2020 £nil).

Impairment review of right-of-use assets
Right-of-use assets are reviewed for impairment by comparing site recoverable amount to their 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.

Recoverable amount is determined as being the higher of fair value or value in use. Value in use calculations use forecast trading performance cash flows, which are discounted by applying a pre-tax discount rate of 9.6% (2020 9.9%) and a long-term growth rate of 2.0% (2020 0.0%). The long-term growth rate has been increased to 2.0% in the current period based on up to date economic data points and for consistency with the overall Group profit forecast.

Sensitivity analysis
Changes in forecast cash flows, the discount rate or the long-term growth rate could materially impact the impairment charge recognised for right-of-use assets.

Forecast cash flows
The forecast cash flows used in the value in use calculations are site level forecasts that form the overall Company profit forecast for FY 2022, in existence at the balance sheet date. Management have determined a potential downside scenario to this forecast which assumes a longer turnaround of profit back to pre-Covid-19 levels. The use of this downside forecast results in a reduction to EBITDA of 13.7% in FY 2022 against the FY 2022 base case forecast. This would result in no increase in the impairment recognised.

Discount rate
The discount rate applied in the value in use calculations is the Company WACC. Over the last two financial periods, the discount rate used in impairment reviews has moved by 0.3%. It is estimated that a 0.3% increase or decrease in this rate, would result in no change to the impairment charge.

17. Leases (continued)

Impairment review of right-of-use assets (continued)

Sensitivity analysis (continued)

Long-term growth rate
The long-term growth included in the value in use calculations is 2.0%. It is estimated that if the long term growth rate was reduced to 0.0%, the impairment charge would increase by £1m.

Lease liabilities

A maturity analysis of the undiscounted future lease payments used to calculate the lease liabilities is shown below.

	25 September 2021 £m	26 September 2020 £m
Amounts payable under lease liabilities		
Due within one year	26	29
Due within one and two years	21	19
Due within two and three years	12	20
Due within three and four years	13	12
Due within four and five years	12	12
Due after five years	177	181
Total undiscounted lease liabilities	261	273
Less: impact of discounting	(101)	(103)
Present value of lease liabilities	160	170

Analysed as:		
Current lease liabilities - amounts due within twelve months	21	24
Non-current lease liabilities – amounts due after twelve months	139	146
	160	170

Amendments to IFRS 16: Covid-19-Related Rent Concessions

During the period, the Group has reached an agreement with a number of landlords to defer rent payments or waive a portion of rent that was due during periods of enforced pub closure as a result of Covid-19.

The Group has early adopted the requirements of Amendments to IFRS 16: Covid-19-Related Rent Concessions during the year.

As a result of early adopting these requirements, rent deferrals which would otherwise have been treated as lease modifications have been accounted for as if the change was not a lease modification.

In addition, rent waivers have been accounted for as if the change was not a lease modification. This has resulted in a total of £0.6m reduction to the lease liability. The reduction to lease liability has resulted in an increase of £0.4m to opening retained earnings, where the waiver relates to the previous financial period and £0.2m credit in the current period income statement, where the waiver relates to the current financial period.

17. Leases (continued)

Finance lease receivables

A maturity analysis of the undiscounted future lease payments receivable used to calculate the finance lease receivable is shown below.

	25 September 2021 £m	26 September 2020 £m
Amounts receivable under finance leases		
Due within one year	1	1
Due within one and two years	1	1
Due within two and three years	1	1
Due within three and four years	-	1
Due within four and five years	-	-
Due after five years	2	4
Total undiscounted lease payments receivable	5	8
Less: unearned finance income	(1)	(3)
Present value of lease payments receivable	4	5

Net investment in the leases analysed as:

Current finance lease receivables - amounts due within twelve months	1	1
Non-current finance lease receivables - amounts due after twelve months	3	4
	4	5

The Directors of the Company estimate the loss allowance on finance lease receivables at the end of the reporting period at an amount equal to lifetime ECL. None of the finance lease receivables at the end of the reporting period is past due, and taking into account the historical default experience and the future prospects of the tenants, the Directors of the Company have recognised a finance lease receivable impairment of £1m in the current period (2020 £nil).

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for finance lease receivables.

Operating lease receivables – Company as lessor

The Company leases a small proportion of its unlicensed properties to tenants. The majority of lease agreements have terms of 50 years or less and are classified as operating leases. Where sublet arrangements are in place, future minimum lease payments and receipts are presented gross.

The total future minimum lease rental receipts under non-cancellable operating leases are as follows:

	25 September 2021 £m	**26 September 2020 £m**
Due within one year	**7**	6
Due within one and two years	**6**	5
Due within two and three years	**5**	5
Due within three and four years	**4**	4
Due within four and five years	**4**	4
Due after five years	**20**	21
	46	45

The total value of future minimum sublease rental receipts included above is £2m (2020 £2m).

18. Deferred tax

The deferred tax assets and liabilities recognised in the balance sheet are as follows:

	25 September 2021 £m	26 September 2020 £m
Deferred tax assets		
Derivatives	**52**	57
Right-of-use assets[a]	**3**	2
Trading losses carried forward	**14**	-
	69	59
Deferred tax liabilities		
Accelerated tax depreciation	**(46)**	(34)
Revaluation of property	**(230)**	(145)
Rolled over and held over gains	**(135)**	(103)
Depreciated non-qualifying assets	**(3)**	(2)
	(414)	(284)
	(345)	(225)

a. Deferred tax recognised on transition to IFRS 16 in the prior period.

At 25 September 2021, the Company has netted off deferred tax assets of £69m with deferred tax liabilities where there is a legally enforceable right to settle on a net basis. At 26 September 2020, only the accelerated capital allowances of £34m were offset. The revised presentation better reflects the facts and circumstances around these tax positions. It should be noted that this adjustment has had no impact on the income statement, net assets or cash flow of the Company for the period ended 25 September 2021 or 26 September 2020. Deferred tax assets and liabilities have been offset and disclosed in the balance sheet as follows:

	25 September 2021 £m	26 September 2020 £m
Deferred tax assets (after offsetting)	**-**	25
Deferred tax liabilities (after offsetting)	**(345)**	(250)
	(345)	(225)

18. Deferred tax (continued)

	52 weeks ended 25 September 2021 £m	52 weeks ended 26 September 2020 £m
Deferred tax in the income statement		
Accelerated tax depreciation	**(12)**	(2)
Trading losses carried forward	**14**	-
Right-of-use assets	**1**	-
Rolled over and held over gains	**(16)**	(6)
Unrealised losses on revaluations	**4**	13
Depreciated non-qualifying assets	**(1)**	-
Total deferred tax (charge)/credit in the income statement	**(10)**	5

	52 weeks ended 25 September 2021 £m	52 weeks ended 26 September 2020 £m
Tax relating to items recognised directly in equity		
Tax charge related to share based payments	**-**	**(1)**

19. Provisions

Onerous property provisions represent the expected unavoidable losses on onerous and vacant property leases and comprise the lower of the net lease commitment (fixed service charges) or the operating loss after service charge costs. The provision is calculated on a site by site basis with a provision being made for the remaining committed lease term, where a lease is considered to be onerous. Other contractual dilapidations costs are also recorded as provisions as appropriate.

The provision for unavoidable losses on onerous property leases has been set up to cover fixed service charge payments of vacant or loss-making properties.

The provision for dilapidation costs has been set up to cover the estimated future dilapidations claims from landlords on leases that are within five years of expiry.

Provisions can be analysed as follows:

	Onerous property provisions £m	Dilapidation provision £m	Total property provision £m
At 26 September 2020	**-**	**2**	**2**
Provided in the period	**-**	**2**	**2**
At 25 September 2021	**-**	**4**	**4**

20. Equity

Share Capital

	25 September 2021		26 September 2020	
Allotted, called up and fully paid	**No.**	**£**	**No.**	**£**
Ordinary shares of £1 each[a]	**145,882,000**	**145,882,000**	50,882,000	50,882,000
Ordinary shares of £0.0001 each	**214,000,000**	**21,400**	214,000,000	21,400
	359,882,000	**145,903,400**	264,882,000	50,903,400

a. During the period 95 million (2020 47 million) ordinary shares of £1 each were issued and subscribed for by Mitchells & Butlers Retail Holdings Limited.
b. All of the ordinary shares rank equally with respect to voting rights and rights to receive dividends.

Hedging reserve
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged future cash flows.

Revaluation reserve
The revaluation reserve represents the unrealised gain generated on revaluation of the property estate with effect from 29 September 2007. It comprises the excess of the fair value of the estate over deemed cost, net of related deferred taxation.

Retained earnings
The Company's ability to distribute these reserves by way of dividends is restricted by the securitisation covenants (see note 16).

21. Dividends
During the period, the Company has paid dividends of £nil (2020 £10m). Dividend payments are made by the Company to its immediate parent undertaking, Mitchells & Butlers Retail Holdings Limited.

The Directors are proposing a final dividend of £nil (2020 £nil).

22. Contingent liabilities
Pursuant to the securitisation of the business of Mitchells & Butlers Retail Limited on 13 November 2003, the Company is jointly and severally liable with various other companies within the Mitchells & Butlers plc Group, for all advances made by Mitchells & Butlers Finance plc to the Company and other companies within the Mitchells & Butlers Group, under an Issuer/Borrower Facility Agreement dated 13 November 2003, as amended and restated on 15 September 2006.

On 13 November 2003, the Company and certain other members of the Mitchells & Butlers plc Group granted full fixed and floating security over their respective assets and cash flows.

23. Ultimate parent undertaking

The Company's immediate parent is Mitchells & Butlers Retail Holdings Limited.

The Company's ultimate parent and controlling party is Mitchells & Butlers plc.

Relationship between entity and parents
The parent of the largest and smallest group in which these financial statements are consolidated is Mitchells & Butlers plc, incorporated in the United Kingdom.

The consolidated financial statements of Mitchells & Butlers plc are available from the Company Secretary, 27 Fleet Street, Birmingham, B3 1JP, which is the registered address of the Company.

All undertakings, including the Company, are companies incorporated in the United Kingdom and registered in England and Wales.