Financial statements

IN THIS SECTION

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion:

- the financial statements of Mitchells & Butlers plc (the 'Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 28 September 2019 and of the Group's profit for the 52 weeks then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the Group income statement;
- the Group statement of comprehensive income;
- the Group and Company balance sheets;
- the Group and Company statements of changes in equity;
- the Group cash flow statement;
- the related notes 1 to 5 of Group financial statements; and
- the related notes 1 to 10 of the Company financial statements

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 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 Group and 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 as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

SUMMARY OF OUR AUDIT APPROACH

Key audit matters	The key audit matters that we identified in the current year were: • Onerous lease provisions • Valuation of the pub estate • Compliance with debt covenants
Materiality	The materiality that we used for the Group financial statements was £9.65m which was determined on the basis of approximately 5% of profit before tax before separately disclosed items.
Scoping	A full scope audit has been performed in respect of the UK business, consistent with 2018.
Significant changes in our approach	There have been no changes in the key audit matters included in our audit report since 2018. This is consistent with the fact that the operations of the Group are largely unchanged from the previous year.

Conclusions relating to going concern, principal risks and viability statement	
Going concern We have reviewed the Directors' statement in Section 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements. We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment. We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.	We confirm that we have nothing material to report, add or draw attention to in respect of these matters.
Principal risks and viability statement Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to: • the disclosures on pages 40–45 that describe the principal risks and explain how they are being managed or mitigated; • the Directors' confirmation on page 40 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or • the Directors' explanation on page 45 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Onerous lease provisions		
As set out in section 3.3, property provisions are £36m (2018 £43m) of which £34.7m (2018 £41.9m) relates to onerous lease provisions. The accounting policy and the critical accounting judgement in relation to property provisions are set out in section 3.3. The Audit Committee's discussion of this key audit matter is set out on page 74. Loss-making short leasehold properties are reviewed by management to determine whether an onerous lease provision is required. Judgements in relation to expected trading levels, the appropriate lease term over which to provide, the impact of expansionary capital, the potential opportunity to exit the leases early and the appropriate discount rate to use are applied when assessing the level of onerous lease provision required. Therefore, we have identified a potential risk of fraud in this key audit matter. **Focus areas** Given the size of the leasehold estate there is a risk that where a site is underperforming, the cash flows generated may not be adequate to cover future lease obligations, resulting in the requirement for an onerous lease provision for the unavoidable cash outflows on loss making properties. We focused on the valuation and completeness of the onerous lease provision by assessing the judgements used in arriving at the level of the provision for each site. Furthermore, we also focused on sites where a turnaround or exit plan is in place.	We performed the following procedures to respond to the key audit matter: • we assessed the appropriateness of the classification of property provisions provided in the period as a before separately disclosed item in accordance with IAS 1 Presentation of Financial Statements; • we checked that all leasehold sites were considered in management's process to identify sites which were potentially subject to onerous lease provisions; • where onerous lease provisions have not been recognised, despite historical results indicating that a provision may be required, we obtained evidence to support management's assertion that properties can be successfully turned around. This included assessing the success of previous actions undertaken by management to turnaround similar sites; • we tested a sample of loss making short leasehold and unlicensed properties to challenge management's estimate of the unavoidable cash outflows on loss making properties that are forecast to arise from these properties over the remaining term of the lease; • we assessed the appropriateness of forecast EBITDAs taking into consideration the cost saving and sales opportunities identified by management following a benchmarking exercise. This included performing a retrospective review of forecasting accuracy for those properties included in the 2018 benchmarking exercise; • we tested the integrity of the information used within the onerous lease provision calculation by agreeing inputs back to source data including historical results, and rental commitments; and • we assessed the appropriateness of the risk free discount rate used through comparison to appropriate external benchmarks. Additionally, we tested the controls in relation to the calculation of the onerous lease provision for properties where current period EBITDA is used as a proxy for future cash flows arising from properties. The controls tested covered management's review of: • the completeness and accuracy of the inputs into the onerous lease provision model; and • the key assumptions used in determining the provision to be recognised.	We consider that the onerous lease provision is within a reasonable range and that the presentation of the movements in the onerous lease provision is in accordance with IAS 1.

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Valuation of the pub estate		
As set out in section 3.1 the value of the estate is £4,528m (2018 £4,426m). **Freehold and long leasehold** The accounting policy adopted, critical accounting judgements applied and key sources of estimation uncertainty are described in section 3.1 to the financial statements. The Audit Committee's discussion of this key audit matter is set out on page 74. This is considered to be a key audit matter due to the judgements inherent within the valuation exercise and the range of acceptable judgements. The total net book value of revalued properties as at 28 September 2019 is £4,343m (2018 £4,230m). The revaluation exercise performed in the year has resulted in a net increase of £87m versus carrying value (2018 £33m decrease), which includes an impairment charge of £4m (2018 £28m) recognised in the income statement. The Group's accounting policy sets out that the market value is determined using factors such as estimated fair maintainable trading levels and estimated multiples which are derived for each of the Group's trading brands. Approximately 20% of the freehold and long leasehold estate has been inspected by the Group's external valuers, with the result of the inspection informing the brand standard multiples which are then extrapolated across the remainder of the estate. In specific circumstances where this approach does not fairly represent the underlying value of the property, for example if a site is loss making, a spot valuation is applied. Where sites have been impacted by expansionary capital investment in the preceding 12 months, fair maintainable trade is taken as the post investment forecast. Sites that have been open for more than three periods (2018 three periods) are reviewed for impairment.	We worked with our property valuation specialists and management's external advisers to challenge the methodology and underlying assumptions used in the freehold and long leasehold pub estate valuation. This included: • confirming the appropriateness of the estimated fair maintainable trading levels being used to value the properties; • obtaining evidence to support the appropriateness of the valuations of the inspected estate when benchmarked to transaction activity in the licensed retail property market. In particular we considered the agreed terms of the sales of Greene King plc and Ei Group plc during 2019 and the associated impact on the valuation of the Group's properties; • testing the application of the multiple derived from the valuation of inspected properties to the rest of the estate; • obtaining evidence to support the future projected income used in the impairment reviews for freehold and long leasehold sites which have been impacted by expansionary capital investment in the preceding twelve months. This included performing a retrospective review of forecasting accuracy for those properties impacted by expansionary capital investment in the past three years; and • reviewing the appropriateness and completeness of any spot valuations made. Additionally, we tested controls in relation to the valuation of the freehold and long leasehold estate. The controls tested covered management's review of: • the completeness and accuracy of the key inputs into the revaluation model; • the key judgements made in relation to fair maintainable trading levels and multiples; and • the completeness of spot valuations.	We are in agreement with the methodology chosen and the assumptions adopted to revalue the pub estate. We consider the determination of fair maintainable trading levels to be at the conservative end of the range. We concur that the valuations are suitable for inclusion in the financial statements.

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Valuation of the pub estate continued		
Short leasehold The accounting policy adopted and judgements used are described in section 3.1 to the financial statements. The total value of short leasehold properties as at 28 September 2019 is £157m (2018 £156m). Judgements in relation to expected trading levels, whether the site has the potential to be turned around and discount rates are applied when calculating short leasehold property impairments. The Group recorded an impairment charge of £7m (2018 £15m) in the year, offset by reversal of past impairments of £2m (2018 £nil). **Focus areas** Given the amounts capitalised and the risk associated across the freehold, long leasehold and short leasehold sites we have focused our procedures on the assessment made by management of: • the appropriateness of the fair maintainable trading levels and brand multiple assumptions applied to the freehold and long leasehold estate on a site by site basis; • the valuation of freehold and long leasehold sites impacted by expansionary capital, challenging the need for any impairment of property, plant and equipment required at an individual outlet level; and • the requirement for any impairment in respect of the property, plant and equipment held in the short leasehold estate at an individual outlet level. In addition, due to the level of subjective judgements involved in respect of multiple and fair maintainable trade assumptions which are inherently uncertain, we have identified a potential risk of fraud in this key audit matter.	We challenged the assumptions used by management within the impairment reviews performed for the short leasehold estate. This included: • obtaining evidence to support management's assertion that short leasehold properties can be successfully turned around where properties have not been impaired due to management's expectation that the performance of the properties will improve. This included obtaining evidence to support management's turnaround plans and performance of a retrospective review considering the success of historic turnaround plans; • we tested a sample of loss making short leasehold properties to challenge management's estimate of the cash flows that are forecast to arise from these properties over the remaining term of the lease; • we assessed the appropriateness of forecast EBITDAs taking into consideration the cost saving and sales opportunities identified by management following a benchmarking exercise. This included performing a retrospective review of forecasting accuracy for those properties included in the 2018 benchmarking exercise; • testing the integrity of the information used within the model by agreeing inputs back to source data including historical results and lease terms; and • assessing the appropriateness of the discount rate through recalculation and performing sensitivity analysis. Additionally, we tested controls in relation to the short leasehold impairment review. The controls tested covered management's reviews of: • the completeness and accuracy of the inputs into the short leasehold impairment model; and • the key assumptions used in determining the impairment to recognise.	

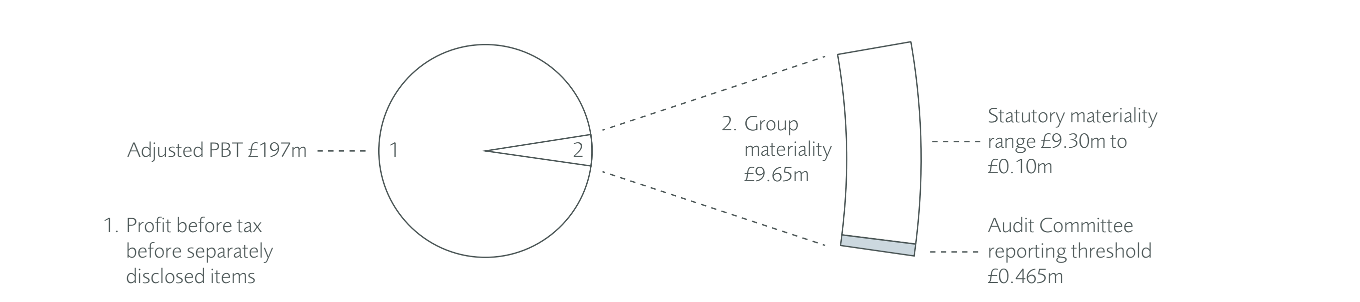
Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Compliance with debt covenants		
The primary source of borrowing for the Group is secured loan notes of £1,752m at 28 September 2019 (2018 £1,830m). This debt is secured on the majority of the properties owned by the Group (properties held within a subsidiary company, Mitchells & Butlers Retail Limited). The Group also has £150m of unsecured credit facilities. There are covenants attached to both the secured loan notes and the unsecured revolving credit facilities. The industry continues to face inflationary cost pressures. In addition, there is uncertainty around the terms and timing of the United Kingdom's exit from the European Union, and the outcome of the general election on 12 December 2019. We therefore identified that the forecasting of EBITDA during the going concern period is subject to significant judgements and estimates. The key risk identified is the Group's ability to meet the forecasted EBITDA over the going concern period for the financial covenants attached to the secured loan notes. This test is measured at each quarter end date, in respect of the previous two quarters and the previous year, for Mitchells & Butlers Retail Limited. Debt covenants are further disclosed within Note 4.2 of the Group financial statements, as well as being disclosed on page 48. The Audit Committee's discussion of this key audit matter is set out on page 74.	We performed the following procedures to respond to the key audit matter: • obtained an understanding of controls in relation to the management review of the budget and forecast covenant compliance; • reviewed management's going concern assessment, by challenging management to understand the key drivers forming the basis of the EBITDA forecasts and challenging the assumptions used in the base case scenario using industry forecasts, historical performance and our understanding of the business; • challenged the appropriateness of the reasonably possible sensitivities used in management's downside scenario over the going concern period; • reviewed and challenged management's key assumptions by reference to independent industry sources and relevant supporting evidence and sensitising the impact these have on management's assessment of profitability; • considered the feasibility of the mitigating actions that management have at their disposal should the financial covenants be close to being breached; and • reviewed the disclosures on going concern to confirm that they are consistent with the knowledge we have acquired during the course of our audit and to confirm that the disclosures are consistent with the overall requirement for the Annual Report to be fair, balanced and understandable.	We concur with management's assumptions in relation to the going concern status of the Group and the resulting going concern disclosures.

OUR APPLICATION OF MATERIALITY

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	**Company financial statements**
Materiality	£9.65m (2018 £8.8m)	£9.3m (2018 £8.5m)
Basis for determining materiality	Approximately 5% (2018 5%) of profit before tax adjusted for net profit arising on property disposals, movements in the valuation of the property portfolio and past service cost in relation to the defined benefit pension scheme obligation. Adjusted items relate to separately disclosed items in note 2.2 (2018 profit before tax adjusted for net profit arising on property disposals, movements in the valuation of the property portfolio and separately disclosed pension legal costs).	Parent company materiality equates to 0.5% of net assets (2018 0.4%), which is capped at 96% of Group materiality (2018 97%).
Rationale for the benchmark applied	Profit before tax before separately disclosed items is a key measure used by the Group in reporting its results to allow a better understanding of the adjusted trading of the Group and is also a key measure considered by users of the accounts.	The parent company does not trade so materiality has been determined using net assets.



We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2019 audit (2018 70%). In determining performance materiality, we considered factors including:

- our risk assessment, including our assessment of the Group's overall control environment and that we consider it appropriate to rely on controls over key business processes; and
- our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £465,000 (2018 £440,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we performed a full scope audit in respect of the UK retail operating business which accounts for 99% (2018 99%) of the Group's total assets, 96% (2018 96%) of revenue and 96% (2018 96%) of operating profit. This audit work was performed directly by the Group audit engagement team, who also tested the consolidation process. Given the relative size of the German business ('ALEX') we consider the UK business provides sufficient audit assurance over the Group balances. This approach is consistent with 2018. At the parent entity level we also tested the consolidation process, as well as the Company balance sheet to parent company materiality.

Our audit work on the UK business was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from £0.1m to £9.3m (2018 £1 to £8.5m).

	Full audit scope	Review at Group level
Revenue	96%	4%
Profit before tax	96%	4%
Net assets	99%	1%

Our consideration of the control environment

The Group uses JDE Enterprise for financial reporting in all of its legal entities. We utilised our IT specialists to assess key controls over the JDE Enterprise system, plus other key IT systems relevant to our audit including Stock Wastage System, STEP, Aztec, Data Warehouses, Robot Scheduler, Sterling and Biztalk and the supporting infrastructure for these applications.

Over the course of the year, management have undertaken an exercise to further strengthen the IT environment, which resulted in a number of new controls being implemented during the year. We performed additional procedures, through a combination of review of mitigating controls in place and exposure testing, to mitigate IT audit risks where new controls had not been in place for the full year, or are due to be implemented post year-end, for example, reviewing system logs to determine whether there had been any inappropriate access during the year. We were able to mitigate all identified IT audit risks relevant to our audit through a combination of operating effectiveness testing of controls and additional procedures.

In responding to the assessed risks of material misstatement, the audit engagement team placed reliance on the operating effectiveness of the Group's controls in relation to revenue, food and drink expenditure, property, plant and equipment return generating capital expenditure, depreciation, onerous lease provisions and the valuation of the pub estate.

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

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.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

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 Group's and 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 Group or 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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud, are set out below.

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

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, Group Assurance, in-house legal counsel including the Company Secretary and General Counsel, and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including property, tax, pensions, IT and financial instruments specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: valuation of pub estate, onerous lease provisions and compliance with debt covenants; and
- obtaining an understanding of the legal and regulatory framework that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation, tax legislation, data protection regulations, licensing regulations, occupational health and safety regulations, responsible drinking regulations, planning and building legislation and employment legislation.

Audit response to risks identified

As a result of performing the above, we identified onerous lease provisions, valuation of the pub estate and compliance with debt covenants as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing Group Assurance reports; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the Company and their 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

Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board on 10 February 2011 to audit the financial statements for the 52 weeks ending 24 September 2011 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is nine years, covering the years ending 24 September 2011 to 28 September 2019.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

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.

JOHN CHARLTON FCA
(Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

19 November 2019

GROUP INCOME STATEMENT
FOR THE 52 WEEKS ENDED 28 SEPTEMBER 2019

		2019 52 weeks			2018 52 weeks		
	Notes	Before separately disclosed items £m	Separately disclosed items[a] £m	Total £m	Before separately disclosed items £m	Separately disclosed items[a] £m	Total £m
Revenue	2.1, 2.3	**2,237**	**–**	**2,237**	2,152	–	2,152
Operating costs before depreciation, amortisation and movements in the valuation of the property portfolio	2.2, 2.3	**(1,801)**	**(19)**	**(1,820)**	(1,730)	(6)	(1,736)
Net profit arising on property disposals	2.2, 2.3	**–**	**1**	**1**	–	1	1
EBITDA[b]		**436**	**(18)**	**418**	422	(5)	417
Depreciation, amortisation and movements in the valuation of the property portfolio	2.2, 2.3	**(119)**	**(2)**	**(121)**	(119)	(43)	(162)
Operating profit		**317**	**(20)**	**297**	303	(48)	255
Finance costs	4.3	**(114)**	**–**	**(114)**	(119)	–	(119)
Finance revenue	4.3	**1**	**–**	**1**	1	–	1
Net pensions finance charge	4.3, 4.5	**(7)**	**–**	**(7)**	(7)	–	(7)
Profit before tax		**197**	**(20)**	**177**	178	(48)	130
Tax (charge)/credit	2.2, 2.4	**(38)**	**4**	**(34)**	(33)	7	(26)
Profit/(loss) for the period		**159**	**(16)**	**143**	145	(41)	104
Earnings per ordinary share							
– Basic	2.5	**37.2p**		**33.5p**	34.1p		24.5p
– Diluted	2.5	**37.1p**		**33.3p**	34.0p		24.4p

a. Separately disclosed items are explained and analysed in note 2.2.
b. Earnings before interest, tax, depreciation, amortisation and movements in the valuation of the property portfolio.

The notes on pages 111 to 150 form an integral part of these consolidated financial statements.

All results relate to continuing operations.

GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE 52 WEEKS ENDED 28 SEPTEMBER 2019

	Notes	**2019 52 weeks £m**	2018 52 weeks £m
Profit for the period		**143**	104
Items that will not be reclassified subsequently to profit or loss:			
Unrealised gain/(loss) on revaluation of the property portfolio	3.1	**84**	(5)
Remeasurement of pension liability	4.5	**15**	5
Tax relating to items not reclassified	2.4	**(18)**	–
		81	–
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges:			
– (Losses)/gains arising during the period	4.4	**(81)**	16
– Reclassification adjustments for items included in profit or loss	4.4	**23**	34
Tax relating to items that may be reclassified	2.4	**10**	(8)
		(48)	42
Other comprehensive income after tax		**33**	42
Total comprehensive income for the period		**176**	146

The notes on pages 111 to 150 form an integral part of these consolidated financial statements.

GROUP BALANCE SHEET
28 SEPTEMBER 2019

	Notes	2019 £m	2018 £m
Assets			
Goodwill and other intangible assets	3.4	**14**	11
Property, plant and equipment	3.1	**4,528**	4,426
Lease premiums		**1**	1
Interests in associates	3.5	**5**	5
Deferred tax asset	2.4	**66**	63
Derivative financial instruments	4.4	**53**	44
Total non-current assets		**4,667**	4,550
Inventories	3.2	**26**	26
Trade and other receivables	3.2	**63**	56
Other cash deposits	4.1	**–**	120
Cash and cash equivalents	4.1	**133**	122
Derivative financial instruments	4.4	**3**	4
Total current assets		**225**	328
Total assets		**4,892**	4,878
Liabilities			
Pension liabilities	4.5	**(50)**	(49)
Trade and other payables	3.2	**(327)**	(302)
Current tax liabilities		**(12)**	(9)
Borrowings	4.2	**(95)**	(233)
Derivative financial instruments	4.4	**(36)**	(37)
Total current liabilities		**(520)**	(630)
Pension liabilities	4.5	**(165)**	(200)
Borrowings	4.2	**(1,657)**	(1,744)
Derivative financial instruments	4.4	**(266)**	(207)
Deferred tax liabilities	2.4	**(301)**	(285)
Provisions	3.3	**(36)**	(43)
Total non-current liabilities		**(2,425)**	(2,479)
Total liabilities		**(2,945)**	(3,109)
Net assets		**1,947**	1,769
Equity			
Called up share capital	4.7	**37**	37
Share premium account	4.7	**26**	26
Capital redemption reserve	4.7	**3**	3
Revaluation reserve	4.7	**1,267**	1,197
Own shares held	4.7	**(4)**	(1)
Hedging reserve	4.7	**(250)**	(202)
Translation reserve	4.7	**14**	14
Retained earnings		**854**	695
Total equity		**1,947**	1,769

The notes on pages 111 to 150 form an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the Board and authorised for issue on 19 November 2019.

They were signed on its behalf by:

TIM JONES
Chief Financial Officer

GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE 52 WEEKS ENDED 28 SEPTEMBER 2019

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Own shares held £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
At 30 September 2017	36	26	3	1,202	(1)	(244)	14	590	1,626
Profit for the period	–	–	–	–	–	–	–	104	104
Other comprehensive (expense)/income	–	–	–	(4)	–	42	–	4	42
Total comprehensive (expense)/ income	–	–	–	(4)	–	42	–	108	146
Share capital issued	–	1	–	–	–	–	–	–	1
Credit in respect of share-based payments	–	–	–	–	–	–	–	3	3
Dividends paid	–	–	–	–	–	–	–	(7)	(7)
Revaluation reserve realised on disposal of properties	–	–	–	(1)	–	–	–	1	–
Scrip dividend related share issue	1	(1)	–	–	–	–	–	–	–
At 29 September 2018	37	26	3	1,197	(1)	(202)	14	695	1,769
Profit for the period	–	–	–	–	–	–	–	143	143
Other comprehensive income/(expense)	–	–	–	70	–	(48)	–	11	33
Total comprehensive income/ (expense)	–	–	–	70	–	(48)	–	154	176
Purchase of own shares	–	–	–	–	(3)	–	–	–	(3)
Credit in respect of share-based payments	–	–	–	–	–	–	–	3	3
Tax on share-based payments	–	–	–	–	–	–	–	2	2
At 28 September 2019	**37**	**26**	**3**	**1,267**	**(4)**	**(250)**	**14**	**854**	**1,947**

GROUP CASH FLOW STATEMENT
FOR THE 52 WEEKS ENDED 28 SEPTEMBER 2019

	Notes	2019 52 weeks £m	2018 52 weeks £m
Cash flow from operations			
Operating profit		**297**	255
Add back: adjusted items	2.2	**20**	48
Operating profit before adjusted items		**317**	303
Add back:			
Depreciation of property, plant and equipment	2.3	**116**	116
Amortisation of intangibles	2.3	**3**	3
Cost charged in respect of share-based payments	4.6	**3**	3
Administrative pension costs	4.5	**3**	2
Operating cash flow before adjusted items, movements in working capital and additional pension contributions		**442**	427
Increase in inventories		**–**	(1)
Increase in trade and other receivables		**(9)**	(1)
Increase in trade and other payables		**25**	4
Decrease in provisions		**(7)**	–
Additional pension contributions	4.5	**(49)**	(48)
Cash flow from operations before adjusted items		**402**	381
Cash flow from adjusted items		**–**	(2)
Interest paid		**(113)**	(120)
Interest received		**2**	1
Tax paid		**(25)**	(20)
Net cash from operating activities		**266**	240
Investing activities			
Purchases of property, plant and equipment		**(147)**	(167)
Purchases of intangible assets		**(5)**	(4)
Proceeds from sale of property, plant and equipment		**14**	5
Acquisition of investment in associates	3.5	**–**	(5)
Transfers from other cash deposits		**120**	–
Net cash used in investing activities		**(18)**	(171)
Financing activities			
Issue of ordinary share capital		**–**	1
Purchase of own shares		**(3)**	–
Dividends paid (net of scrip dividend)	4.7	**–**	(7)
Repayment of principal in respect of securitised debt	4.1	**(87)**	(82)
Repayment of liquidity facility	4.1	**(147)**	–
Net movement on unsecured revolving credit facilities	4.1	**–**	(6)
Net cash used in financing activities		**(237)**	(94)
Net increase/(decrease) in cash and cash equivalents		**11**	(25)
Cash and cash equivalents at the beginning of the period		**122**	147
Cash and cash equivalents at the end of the period	4.1	**133**	122

The notes on pages 111 to 150 form an integral part of these consolidated financial statements.

GENERAL INFORMATION

Mitchells & Butlers plc (the Company) is a public limited company limited by shares and is registered in England and Wales. The Company's shares are listed on the London Stock Exchange. The address of the Company's registered office is shown on page 149.

The principal activities of the Company and its subsidiaries (the Group) and the nature of the Group's operations are set out in the Strategic report on pages 10 to 49.

The Group is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and in accordance with the Companies Act 2006.

The Group's accounting reference date is 30 September. The Group draws up its consolidated 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 28 September 2019 and the comparative period ended 29 September 2018 both include 52 trading weeks.

The consolidated financial statements have been prepared on the historical cost basis as modified by the revaluation of properties, pension obligations and financial instruments.

The Group's accounting policies have been applied consistently.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of Mitchells & Butlers plc ('the Company') and entities controlled by the Company (its subsidiaries).

Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at the previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of the subsidiaries acquired or disposed of during the year are included in the Group income statement from the date the Company gains control until the date when the Company ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same financial reporting period as the Company. Intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated on consolidation.

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on pages 10 to 49. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described within the Finance review.

Note 4.4 to the consolidated financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. As highlighted in note 4.2 to the consolidated financial statements, the Group's financing is based upon securitised debt and unsecured borrowing facilities.

The Directors have, at the time of approving the consolidated financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements. In addition, the Directors have provided a review of long-term viability on page 45, which assesses the Group's ability to continue in operation and meet its liabilities as they fall due over a three year period.

FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the exchange rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the relevant rates of exchange ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the Group income statement. Non-monetary assets and liabilities are measured at cost using the exchange rate on the date of the initial transaction.

The consolidated financial statements are presented in pounds sterling (rounded to the nearest million), being the functional currency of the primary economic environment in which the parent and most subsidiaries operate. On consolidation, the assets and liabilities of the Group's overseas operations are translated into sterling at the relevant rates of exchange ruling at the balance sheet date. The results of overseas operations are translated into sterling at average rates of exchange for the period. Exchange differences arising from the translation of the results and the retranslation of opening net assets denominated in foreign currencies are taken directly to the Group's translation reserve. When an overseas operation is sold, such exchange differences are recognised in the Group income statement as part of the gain or loss on sale.

The results of overseas operations have been translated into sterling at the weighted average euro rate of exchange for the period of £1 = €1.13 (2018 £1 = €1.13), where this is a reasonable approximation to the rate at the dates of the transactions. Euro and US dollar denominated assets and liabilities have been translated at the relevant rate of exchange at the balance sheet date of £1 = €1.12 (2018 £1 = €1.12) and £1 = $1.23 (2018 £1 = $1.30) respectively.

NEW AND AMENDED IFRS STANDARDS THAT ARE EFFECTIVE FOR THE CURRENT PERIOD

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and interpretations which have been adopted by the Group in these consolidated financial statements for the first time, with no material impact:

IFRS 9 Financial Instruments

In the current period, the Group has adopted IFRS 9 and the related consequential amendments to other IFRS Standards that are effective for financial periods starting on or after 1 January 2018. The date of initial application for the Group is 30 September 2018.

IFRS 9 introduced new requirements for:

(i) classification and measurement of financial assets and financial liabilities;
(ii) impairment of financial assets; and
(iii) general hedge accounting.

Details of these new requirements as well as their impact on the consolidated financial statements are described below:

Classification and measurement of financial assets

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of those financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

The Directors of the Company reviewed and assessed the Group's existing financial assets as at 30 September 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had no significant impact on the classification and measurement of financial assets in the consolidated financial statements. The only financial assets of the Group related to those classified as loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. Additionally, there is no change to the classification or measurement of the derivative financial instrument assets designated in effective hedge relationships.

The disclosure in note 4.4 has been amended to describe these financial assets as financial assets at amortised cost from loans and receivables.

Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39.

The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets i.e. it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Group to recognise a loss allowance for expected credit losses on:

(i) debt investments measured subsequently at amortised cost or at FVTOCI;
(ii) lease receivables;
(iii) trade receivables and contract assets;
(iv) financial guarantee contracts to which the impairment requirements of IFRS 9 apply; and
(v) cash and cash equivalents.

In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months' ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

The Directors have assessed the impact of lifetime expected credit losses for the relevant financial assets of the Group. For cash and cash equivalents, all bank balances are assessed to have low credit risk as they are held with reputable international banking institutions. For trade and other receivables the Group has adopted the simplified approach under IFRS 9. The lifetime expected credit loss calculated has not resulted in an additional credit loss allowance being recognised in the current period.

The consequential amendments to IFRS 7 have also resulted in more extensive disclosures about the Group's exposure to credit risk (see note 4.4).

General hedge accounting

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required. Enhanced disclosure requirements about the Group's risk management activities have also been introduced.

In accordance with IFRS 9's transition provisions for hedge accounting, the Group has applied the IFRS 9 hedge accounting requirements prospectively from the date of initial application on 30 September 2018. The Group's qualifying hedging relationships in place as at this date also qualify for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. No rebalancing of any of the hedging relationships was necessary on initial application. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships meet IFRS 9's effectiveness assessment requirements. The Group has not designated any hedging relationships under IFRS 9 that would not have met the qualifying hedge accounting criteria under IAS 39.

IFRS 9 requires hedging gains and losses to be recognised as an adjustment to the initial carrying amount of non-financial hedged items (basis adjustment). IFRS 9 clarifies that transfers from the hedging reserve to the initial carrying amount of the hedged item are not reclassification adjustments under IAS 1 Presentation of Financial Statements and hence they do not affect other comprehensive income. Hedging gains and losses subject to basis adjustments are categorised as amounts that will not be subsequently reclassified to profit or loss in other comprehensive income. This is consistent with the Group's practice prior to the adoption of IFRS 9.

The application of the IFRS 9 hedge accounting requirements has had no impact on the results and financial position of the Group for the current and/or prior years. Please refer to note 4.4 for detailed disclosures regarding the Group's risk management activities.

Overall IFRS 9 impact

The application of IFRS 9 has had no impact on the Group balance sheet, the Group income statement, the Group statement of comprehensive income or the Group cash flow statement.

IFRS 15 Revenue from Contracts with Customers
In the current period, the Group has adopted IFRS 15 which is effective for financial periods beginning on or after 1 January 2018. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a five-step approach to revenue recognition:

Step 1: Identify the contract with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when the entity satisfies a performance obligation

As the majority of the Group's revenue is in relation to the sale of food and drink within pubs and restaurants, for which the consideration is known and the performance obligations are satisfied at the point of sale, the application of IFRS 15 has had no impact on the financial position or performance of the Group.

IFRS 2 (amendments) Classification and Measurement of Share-based Payment Transactions
The Group has adopted the amendments to IFRS 2 for the first time in the current period. The amendments clarify the following:

(i) In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity settled share-based payments.
(ii) Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability, such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
(iii) A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows: the original liability is derecognised; the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

These amendments have had no impact on the consolidated financial statements.

Annual improvements to IFRSs: 2014 to 2016 Cycle
The Group has adopted the amendments to IAS 28 included in the Annual Improvements to IFRS Standards 2014–2016 Cycle for the first time in the current year. The amendments clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition. These amendments have had no impact on the consolidated financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration
IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

These amendments have had no impact on the consolidated financial statements.

NEW AND REVISED IFRS STANDARDS IN ISSUE BUT NOT YET EFFECTIVE
The IASB and IFRIC have issued the following standards and interpretations which could impact the Group, with an effective date for financial periods beginning on or after the dates disclosed below:

Accounting standard	Effective date
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
Amendments to IAS 28 Long- term Interest in Associates and Joint Ventures	1 January 2019
Annual Improvements to IFRSs 2015–2017 Cycle	1 January 2019
Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement	1 January 2019

The Directors do not expect that the adoption of the standards listed above will have a material impact on the consolidated financial statements in future periods.

IMPACT OF ADOPTION OF IFRS 16 LEASES
General impact of application of IFRS 16
IFRS 16, which was endorsed by the EU on 9 November 2017, provides a comprehensive model for the identification of lease arrangements and their treatment in the consolidated financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group is 29 September 2019.

Given the number of leases and historical data requirements to adopt the fully retrospective approach, the Group intends to apply the modified retrospective approach, with assets equal to liabilities, at transition. This approach will not require restatement of comparative information.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

Impact on the new definition of a lease
The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered into or modified before 29 September 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- the right to obtain substantially all of the economic benefits from the use of an identified asset; and
- the right to direct the use of that asset.

The Group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 29 September 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

Impact on lessee accounting
IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Group will:

(i) recognise right-of-use assets and lease liabilities in the Group balance sheet, initially measured at the present value of the future lease payments;
(ii) recognise depreciation of right-of-use assets and interest on lease liabilities in the Group income statement; and
(iii) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the Group cash flow statement.

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 Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

The Group will recognise total lease liabilities of £546m in respect of all its leases. The weighted average incremental borrowing rate used to calculate the opening lease liabilities was 3.5%.

The following is a reconciliation of total operating lease commitments at 28 September 2019, as disclosed in note 2.3, to the lease liabilities recognised at 29 September 2019:

	£m
Total operating lease commitments at 28 September 2019 (note 2.3)	678
Reconciling items:	
– Short term leases	(1)
– Lease commitments for periods post break clauses	120
– Assumed lease extensions	5
Operating lease liabilities before discounting	802
Impact of discounting using incremental borrowing rate	(256)
Total lease liabilities recognised under IFRS 16 at 29 September 2019	546

The Group will recognise a corresponding right-of-use asset of £500m in respect of all of its leases.

Lease incentives (e.g. rent-free periods) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental costs on a straight-line basis.

Lease premiums will be recognised as part of the measurement of the right-of-use assets whereas under IAS 17 they resulted in the recognition of a prepayment and were depreciated on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts. The Group will apply the practical expedient to rely on its assessment of onerous lease contracts under IAS 37 as an alternative to performing an impairment review at the transition date. The right of use asset will be adjusted for the value of the onerous lease provision immediately before the transition date. The onerous lease provision at 28 September 2019 is £35m. An amount of £31m will be recognised as impairment at transition, with an amount of £2m recognised in opening retained earnings, representing the excess onerous lease provision as a result of a lower discount rate being used for the onerous lease provision compared to lease liabilities under IFRS 16. The remaining provision of £2m will continue to be held as a provision as it relates to service charge, which is a variable lease commitment.

Impact on lessor accounting
Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

Because of this change the Group will reclassify certain of its sublease agreements as finance leases. As required by IFRS 9, an allowance for expected credit losses will be recognised on the finance lease receivables. The leased assets will be derecognised and finance lease asset receivables recognised. This change in accounting will change the timing of recognition of the related revenue (recognised in finance income). An amount of £19m will be derecognised from the opening right-of-use asset and recognised as a finance lease receivable at transition. The expected credit loss at transition is £nil.

The following is a reconciliation of the opening lease liabilities to the opening right-of-use assets:

	£m
Total lease liabilities recognised under IFRS 16 at 29 September 2019	546
Reconciling items:	
– Lease premiums	1
– Lease incentives	(9)
– Lease prepayments	11
– Dilapidations costs	1
– Impairment recognised	(31)
– Subleases derecognised and recognised as finance lease receivables	(19)
Total right-of-use assets recognised under IFRS 16 at 29 September 2019	500

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Estimates and judgements are periodically reviewed 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. Details of the Group's critical accounting judgements and estimates are described within the relevant accounting policy section in each of the notes to the consolidated financial statements.

Critical judgements are described in each section listed below:

- Note 2.2 Separately disclosed items
- Note 3.1 Property, plant and equipment
- Note 3.3 Provisions
- Note 4.5 Pensions

Key sources of estimation uncertainty are described in:

- Note 3.1 Property, plant and equipment

2.1 SEGMENTAL ANALYSIS

Accounting policies

Operating segments

IFRS 8 Operating Segments requires operating segments to be based on the Group's internal reporting to its Chief Operating Decision Maker (CODM). The CODM is regarded as the Chief Executive together with other Board members. The Group trades in one business segment (that of operating pubs and restaurants) and the Group's brands meet the aggregation criteria set out in Paragraph 12 of IFRS 8. Economic indicators assessed in determining that the aggregated operating segments share similar economic characteristics include expected future financial performance; operating and competitive risks; and return on invested capital. As such, the Group reports the business as one reportable business segment.

The CODM uses EBITDA and profit before interest and adjusted items (operating profit pre-adjustments) as the key measures of the Group's results on an aggregated basis.

Geographical segments

Substantially all of the Group's business is conducted in the United Kingdom. In presenting information by geographical segment, segment revenue and non-current assets are based on the geographical location of customers and assets.

Geographical segments

	UK		Germany		Total	
	2019 52 weeks £m	2018 52 weeks £m	**2019 52 weeks £m**	2018 52 weeks £m	**2019 52 weeks £m**	2018 52 weeks £m
Revenue – sales to third parties	**2,147**	2,071	**90**	81	**2,237**	2,152
Segment non-current assets[a]	**4,531**	4,428	**12**	10	**4,543**	4,438

a. Includes balances relating to intangibles, property, plant and equipment and non-current lease premiums.

2.2 SEPARATELY DISCLOSED ITEMS

Accounting policy

In addition to presenting information on an IFRS basis, the Group also presents adjusted profit and earnings per share information that excludes separately disclosed items and the impact of any associated tax. Adjusted profitability measures are presented excluding separately disclosed items as we believe this provides both management and investors with useful additional information about the Group's performance and supports a more effective comparison of the Group's trading performance from one period to the next. Adjusted profit and earnings per share information is used by management to monitor business performance against both shorter term budgets and forecasts but also against the Group's longer term strategic plans.

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, revaluation of assets held for sale, legal costs associated with the dispute in relation to the defined benefit pension scheme and past service cost in relation to the defined benefit pension obligation.

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 Group. 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:

- One-off legal costs associated with the ongoing court case between the Company and the Trustee of the Defined Benefit Pension scheme in relation to the rate of inflation applied to pension increases for certain sections of the membership. These costs would prevent year on year comparability of the Group's trading if not separately disclosed.
- Past service cost in relation to the defined benefit pension obligation as a result of the High Court ruling on guaranteed minimum pensions (GMPs) equalisations. This has been disclosed separately as it is not considered part of the adjusted trade performance of the Group and would prevent year on year comparability of the Group's trading if not separately disclosed.
- 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 Group and would prevent year on year comparability of the Group's trading performance if not separately disclosed.

2.2 SEPARATELY DISCLOSED ITEMS CONTINUED

The items identified in the current period are as follows:

	Notes	2019 52 weeks £m	2018 52 weeks £m
Adjusted items			
Legal costs associated with the defined benefit pension scheme	a	**–**	(6)
Past service cost in relation to the defined benefit obligation	b	**(19)**	–
Total adjusted items recognised within operating costs		**(19)**	(6)
Net profit arising on property disposals		**1**	1
Movement in the valuation of the property portfolio (see note 3.1):			
– Impairment arising from the revaluation	c	**(4)**	(28)
– Impairment of short leasehold and unlicensed properties	d	**(5)**	(15)
– Reversal of past impairment on transfer to assets held for sale	e	**7**	–
Net movement in the valuation of the property portfolio		**(2)**	(43)
Total adjusted items before tax		**(20)**	(48)
Tax credit relating to above items		**4**	7
Total adjusted items after tax		**(16)**	(41)

a. As previously disclosed in the prior period, there are ongoing legal proceedings between the Company (as principal employer) and Mitchells & Butlers Pensions Limited (as Trustee) for which costs have been incurred both by the Company and by the Trustee, but which the Company has agreed to pay. The legal proceedings are in relation to the Mitchells & Butlers Pension Plan (MABPP), whereby the Trust Deed and Rules provide that it is a matter for the Company to determine the rate of inflation which should be applied to pension increases for certain sections of the membership in excess of guaranteed minimum pensions. The Company has instructed the Trustee to apply CPI (subject to certain caps) in respect of such increases. The Trustee believes that this power was incorrectly vested in the Company in the Trust Deed and Rules of the MABPP in 1996 and, despite it being reflected in further versions of the Trust Deed and Rules, has made an application to court for those various Trust Deed and Rules to be rectified. It is the Board's belief that the Company holds the power to fix such an inflation index and the Company is therefore contesting that application. The hearing is expected to be heard in mid-2020.

b. On 26 October 2018 the High Court provided a ruling regarding guaranteed minimum pensions (GMPs) equalisation. The court ruled that pensions provided to members who had contracted-out of their scheme must be recalculated to ensure payments reflect the equalisation of state pension ages in the 1990s. The ruling provided pension trustees with a range of acceptable methods for calculating the GMP equalisation. The court also ruled that trustees are obliged to make arrears payments to members and simple interest on the arrears should be paid at 1% above the base rate. The estimated increase in pension liabilities required to equalise for GMPs is £19m.

c. The impairment arising from the Group's revaluation of its freehold and long leasehold pub estate comprises an impairment charge, where the carrying values of the properties exceed their recoverable amount, net of a revaluation surplus that reverses past impairments. See note 3.1 for further details.

d. The impairment of short leasehold and unlicensed properties comprises an impairment charge, where their carrying values exceed their recoverable amount, net of an impairment reversal where carrying values have been increased to the recoverable amounts. See note 3.1 for further details.

e. A revaluation uplift, which reverses a previous impairment, has been recognised on reclassification of property, plant and equipment to assets held for sale at the interim date. These assets have been disposed of during the second half of the financial period.

2.3 REVENUE AND OPERATING COSTS

Accounting policy

Revenue recognition

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group 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 drinks sold in the Group'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.

Rental income is received from operating leases where the Group acts as lessor for a number of unlicensed and leased operations. Income from these leases is recognised on a straight-line basis over the term of the lease.

Operating profit

Operating profit is stated after charging adjusted items but before investment income and finance costs.

Supplier incentives

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

Operating leases – Group as lessee

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases and sub-leases are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives are recognised as a liability and a subsequent reduction in the rental expense over the lease term on a straight-line basis.

Premiums paid on acquiring a new lease are spread on a straight-line basis over the lease term. Such premiums are classified in the balance sheet as current or non-current lease premiums, with the current portion being the element which relates to the following period.

The Group's policy is to account for land held under both long and short leasehold contracts as operating leases, since it has no expectation that title will pass on expiry of the lease contracts.

Revenue is analysed as follows:

	2019 52 weeks £m	2018 52 weeks £m
Food	**1,137**	1,092
Drink	**1,025**	991
Services	**75**	69
	2,237	2,152

Revenue from services includes rent receivable from unlicensed properties and leased operations of £10m (2018 £9m).

Operating costs are analysed as follows:

	2019 52 weeks £m	2018 52 weeks £m
Raw materials and consumables recognised as an expense[a]	**574**	564
Changes in inventory of finished goods and work in progress	**–**	(1)
Employee costs	**721**	676
Hire of plant and machinery	**23**	23
Property operating lease costs	**59**	63
Other costs	**424**	405
Operating costs before depreciation, amortisation and movements in the valuation of the property portfolio before separately disclosed items	**1,801**	1,730
Other adjusted items (note 2.2)	**19**	6
	1,820	1,736
Net profit arising on property disposals	**(1)**	(1)
Depreciation of property, plant and equipment (note 3.1)	**116**	116
Amortisation of intangible assets (note 3.4)	**3**	3
Net movement in the valuation of the property portfolio (note 3.1)	**2**	43
Depreciation, amortisation and movements in the valuation of the property portfolio	**121**	162
Total operating costs	**1,940**	1,897

a. Supplier incentives are included as a reduction to the raw materials and consumables expense. These are not disclosed separately as the value is immaterial.

2.3 REVENUE AND OPERATING COSTS CONTINUED

Employee costs

	2019 52 weeks £m	2018 52 weeks £m
Wages and salaries	**656**	620
Share-based payments (note 4.6)	**3**	3
Total wages and salaries	**659**	623
Social security costs	**50**	45
Pensions (note 4.5)	**12**	8
Total employee costs	**721**	676

The average number of employees including part-time employees was 44,521 retail employees (2018 43,777) and 1,039 support employees (2018 1,025).

Information regarding key management personnel is included in note 5.1. Detailed information regarding Directors' emoluments, pensions, long-term incentive scheme entitlements and their interests in share options is given in the Report on Directors' remuneration on pages 76 to 97.

Operating leases

Operating lease commitments – Group as lessee

The vast majority of the Group's leases are industry standard UK pub or commercial property leases which provide for periodic rent reviews to open market value and enjoy statutory rights to renewal on expiry. Generally they do not contain conditions relating to rent escalation, rights to purchase, concessions, residual values or other material provisions of an unusual nature.

Total future minimum lease rental payments under non-cancellable operating leases are as follows:

	2019 £m	2018 £m
Due within one year	**47**	55
Between one and five years	**198**	196
After five years	**433**	419
	678	670

Operating lease receivables – Group as lessor

The Group 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.

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

	2019 £m	2018 £m
Due within one year	**9**	8
Between one and five years	**27**	26
After five years	**52**	45
	88	79

The total value of future minimum sublease rental receipts included above is £39m. £3m of sublease income has been derecognised as rental income in the Group income statement in the period.

Auditor remuneration

	2019 52 weeks £m	2018 52 weeks £m
Fees payable to the Group's auditor for the:		
– audit of the consolidated financial statements	**0.2**	0.1
– audit of the Company's subsidiaries' financial statements	**0.3**	0.3
Total audit fees	**0.5**	0.4
Other fees to auditor:		
– audit related assurance services	**0.1**	0.1
Total non-audit fees	**0.1**	0.1

Auditor's remuneration of £0.4m (2018 £0.3m) was paid in the UK and £0.1m (2018 £0.1m) was paid in Germany.

2.4 TAXATION

Accounting policies

Current tax

The income tax expense represents both the income tax payable, based on 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 that are charged or credited in other comprehensive income or directly in equity, in which case the income tax is also charged or credited in other comprehensive income or directly in 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 Group 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.

Taxation – Group income statement

	2019 52 weeks £m	2018 52 weeks £m
Current tax:		
– UK corporation tax	**(31)**	(28)
– Amounts over provided in prior periods	**3**	2
Total current tax charge	**(28)**	(26)
Deferred tax:		
– Origination and reversal of temporary differences	**(5)**	–
– Adjustments in respect of prior periods	**(1)**	–
Total deferred tax charge	**(6)**	–
Total tax charged in the Group income statement	**(34)**	(26)
Further analysed as tax relating to:		
Profit before adjusted items	**(38)**	(33)
Adjusted items	**4**	7
	(34)	(26)

The standard rate of corporation tax applied to the reported profit is 19.0% (2018 19.0%).

The tax charge in the Group income statement for the period is equal to (2018 higher than) the standard rate of corporation tax in the UK. The differences are reconciled below:

	2019 52 weeks £m	2018 52 weeks £m
Profit before tax	**177**	130
Taxation charge at the UK standard rate of corporation tax of 19.0% (2018 19.0%)	**(34)**	(25)
Expenses not deductible	**(2)**	(4)
Income not taxable	**1**	2
Adjustments in respect of prior periods	**2**	2
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(1)**	(1)
Total tax charge in the Group income statement	**(34)**	(26)

Taxation for other jurisdictions is calculated at the rates prevailing in those jurisdictions.

2.4 TAXATION CONTINUED

	2019 52 weeks £m	2018 52 weeks £m
Deferred tax in the Group income statement:		
Accelerated capital allowances	**1**	1
Retirement benefit obligations	**(4)**	(6)
Depreciated non-qualifying assets	**–**	1
Unrealised gains on revaluations	**(1)**	5
Tax losses – UK	**(2)**	(2)
Tax losses – overseas	**(1)**	1
Share-based payments	**1**	–
Total deferred tax charge in the Group income statement	**(6)**	–

Taxation – other comprehensive income

	2019 52 weeks £m	2018 52 weeks £m
Deferred tax:		
Items that will not be reclassified subsequently to profit or loss:		
– Unrealised (gains)/losses due to revaluations – revaluation reserve	**(14)**	1
– Unrealised gains due to revaluations – retained earnings	**(1)**	–
– Remeasurement of pension liability	**(3)**	(1)
	(18)	–
Items that may be reclassified subsequently to profit or loss:		
– Cash flow hedges:		
– (Losses)/gains arising during the period	**14**	(3)
– Reclassification adjustments for items included in profit or loss	**(4)**	(5)
	10	(8)
Total tax charge recognised in other comprehensive income	**(8)**	(8)

Tax relating to items recognised directly in equity

	2019 52 weeks £m	2018 52 weeks £m
Deferred tax:		
– Tax credit related to share-based payments	**2**	–

Taxation – Group balance sheet

The deferred tax assets and liabilities recognised in the Group balance sheet are shown below:

	2019 £m	2018 £m
Deferred tax asset:		
Retirement benefit obligations (note 4.5)	**36**	43
Derivative financial instruments	**52**	42
Tax losses – UK	**4**	6
Tax losses – overseas	**–**	1
Share-based payments	**4**	2
Total deferred tax asset	**96**	94
Deferred tax liability:		
Accelerated capital allowances	**(30)**	(31)
Rolled over and held over gains	**(112)**	(112)
Unrealised gains on revaluations	**(186)**	(170)
Depreciated non-qualifying assets	**(3)**	(3)
Total deferred tax liability	**(331)**	(316)
Total	**(235)**	(222)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset income tax assets and income tax liabilities and when it is the intention to settle the balances on a net basis. Deferred tax assets and liabilities have been offset and disclosed in the Group balance sheet as follows:

	2019 £m	2018 £m
Deferred tax asset	**66**	63
Deferred tax liability	**(301)**	(285)
Net deferred tax liability	**(235)**	(222)

Unrecognised tax allowances
At the balance sheet date the Group had unused tax allowances of £87m in respect of unclaimed capital allowances (2018 £87m) available for offset against future profits.

A deferred tax asset has not been recognised on tax allowances with a value of £15m (2018 £15m) because it is not certain that future taxable profits will be available in the company where these tax allowances arose against which the Group can utilise these benefits. These tax credits can be carried forward indefinitely.

Factors which may affect future tax charges
The Finance Act 2016 was substantively enacted on 15 September 2016 and reduced the main rate of corporation tax from 19% to 17% from 1 April 2020. The effect of these changes has been reflected in the closing deferred tax balances at 28 September 2019 and 29 September 2018.

2.5 EARNINGS PER SHARE

Basic earnings per share (EPS) has been calculated by dividing the profit or loss for the period by the weighted average number of ordinary shares in issue during the period, excluding own shares held by employee share trusts.

For diluted earnings per share, the weighted average number of ordinary shares is adjusted to assume conversion of all dilutive potential ordinary shares.

Adjusted earnings per ordinary share amounts are presented before adjusted items (see note 2.2) in order to allow a better understanding of the adjusted trading performance of the Group.

	Profit £m	**Basic EPS pence per ordinary share**	**Diluted EPS pence per ordinary share**
52 weeks ended 28 September 2019:			
Profit/EPS	**143**	**33.5p**	**33.3p**
Adjusted items, net of tax	**16**	**3.7p**	**3.8p**
Adjusted profit/EPS[a]	**159**	**37.2p**	**37.1p**
52 weeks ended 29 September 2018:			
Profit/EPS	104	24.5p	24.4p
Adjusted items, net of tax	41	9.6p	9.6p
Adjusted profit/EPS[a]	145	34.1p	34.0p

a. Adjusted profit and adjusted EPS are alternative performance measures (APMs) and are considered critical to aid understanding of the Group's performance. These measures are explained on pages 156 to 158 of this report.

The weighted average number of ordinary shares used in the calculations above are as follows:

	2019 52 weeks £m	2018 52 weeks £m
For basic EPS calculations	**427**	425
Effect of dilutive potential ordinary shares:		
– Contingently issuable shares	**1**	2
– Other share options	**1**	–
For diluted EPS calculations	**429**	427

At 28 September 2019, 782,078 (2018 2,746,844) other share options were outstanding that could potentially dilute basic EPS in the future but were not included in the calculation of diluted EPS as they are anti-dilutive for the periods presented.

3.1 PROPERTY, PLANT AND EQUIPMENT

Accounting policies

Property, plant and equipment

The majority of the Group's freehold and long leasehold licensed land and buildings are revalued annually and are therefore held at fair value less depreciation.

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 year 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 and 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.

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 12 months, FMT is taken as the post investment forecast, as the current year 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 the Directors 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, for example, 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 and unlicensed properties 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 and 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.

Critical accounting judgements
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 Group 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 FMT. The FMT is taken as the post investment forecast, as the current year trading performance includes a period of closure.

Key sources of estimation uncertainty
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; and an estimate of fair maintainable trade, including reference to historic and future projected income levels. A sensitivity analysis of changes in valuation multiples and FMT, in relation to the properties to which these estimates apply, is provided on page 124. The carrying value of properties to which these estimates apply is £4,343m (2018 £4,230m).

Property, plant and equipment
Property, plant and equipment can be analysed as follows:

	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
Cost or valuation			
At 30 September 2017	3,953	1,118	5,071
Additions	39	125	164
Disposals[a]	(12)	(123)	(135)
Revaluation/(impairment)	(41)	(7)	(48)
At 29 September 2018	3,939	1,113	5,052
Additions	37	114	151
Transfer to assets held for sale	(12)	(2)	(14)
Disposals[a]	(2)	(158)	(160)
Revaluation/(impairment)	86	(4)	82
At 28 September 2019	**4,048**	**1,063**	**5,111**
Accumulated depreciation			
At 30 September 2017	78	564	642
Provided during the period	6	110	116
Disposals[a]	(10)	(122)	(132)
At 29 September 2018	74	552	626
Provided during the period	7	109	116
Transfer to assets held for sale	–	(1)	(1)
Disposals[a]	(2)	(156)	(158)
At 28 September 2019	**79**	**504**	**583**
Net book value			
At 28 September 2019	**3,969**	**559**	**4,528**
At 29 September 2018	3,865	561	4,426
At 30 September 2017	3,875	554	4,429

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

Certain assets with a net book value of £41m (2018 £43m) owned by the Group are subject to a fixed charge in respect of liabilities held by the Mitchells & Butlers Executive Top-Up Scheme (MABETUS).

Included within property, plant and equipment are assets with a net book value of £3,881m (2018 £3,788m), which are pledged as security for the securitisation debt and over which there are certain restrictions on title.

Cost at 28 September 2019 includes £7m (2018 £18m) of assets in the course of construction.

Assets held for sale
During the first half of the financial period, a group of properties were classified as held for sale. At the interim date, 13 April 2019, the net book value of these properties was £13m. A revaluation uplift of £7m was recognised to increase the carrying value of these assets to the fair value less costs to sell. The revaluation uplift has been recognised in the Group income statement as it reverses a previously recognised impairment. The properties were sold during the second half of the financial period and therefore the value of assets held for sale remaining at 28 September 2019 is £nil.

3.1 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 28 September 2019, using information provided by CBRE, independent chartered surveyors. The valuation was carried out in accordance with the RICS Valuation – Global Standards 2017 which incorporate the International Valuation Standards and the RICS Valuation – Professional Standards UK January 2014 (revised April 2015) (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, taking account of location, quality of the pub restaurant and recent market transactions in the sector.

Sensitivity analysis

Changes in either the FMT or the multiple could materially impact the valuation of the freehold and long leasehold properties. The average movement in FMT of revalued properties in the past three years is 1.0%. It is estimated that, given the multiplier effect, a 1.0% change in the FMT of the freehold or long leasehold properties would generate an approximate £37m movement in their valuation.

Multiples are determined at an individual brand level. Over the last three years, the weighted average of all brand multiples has moved by an average of 0.1. It is estimated that a 0.1 change in the multiple, would generate an approximate £43m movement in valuation.

Impairment review of short leasehold and unlicensed properties

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 value in use calculations to their carrying values. The value in use calculation uses forecast trading performance cash flows, which are discounted by applying a pre-tax discount rate of 7.7% (2018 7.5%). Any resulting impairment relates to sites with poor trading performance, where the output of the value in use calculation is insufficient to justify their current net book value.

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

	2019 52 weeks £m	2018 52 weeks £m
Group income statement		
Revaluation deficit charged as an impairment	**(76)**	(89)
Reversal of past revaluation deficits	**72**	61
Total impairment arising from the revaluation	**(4)**	(28)
Impairment of short leasehold and unlicensed properties	**(7)**	(15)
Reversal of past impairments of short leasehold and unlicensed properties	**2**	–
Total impairment of short leasehold and unlicensed properties	**(5)**	(15)
Reversal of past impairment on transfer to assets held for sale	**7**	–
	(2)	(43)
Revaluation reserve		
Unrealised revaluation surplus	**199**	171
Reversal of past revaluation surplus	**(115)**	(176)
	84	(5)
Net increase/(decrease) in property, plant and equipment	**82**	(48)

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.

The number of pubs included in the revaluation and the resulting valuation of these properties is reconciled to the total value of property, plant and equipment below.

28 September 2019	Number of pubs	Land and buildings £m	Fixtures, fittings and equipment £m	Net book value[a] £m
Freehold properties	**1,331**	**3,603**	**433**	**4,036**
Long leasehold properties	**96**	**270**	**37**	**307**
Total revalued properties	**1,427**	**3,873**	**470**	**4,343**
Short leasehold properties		**77**	**80**	**157**
Unlicensed properties		**15**	**2**	**17**
Other non-pub assets		**1**	**3**	**4**
Assets under construction		**3**	**4**	**7**
Total property, plant and equipment		**3,969**	**559**	**4,528**

29 September 2018	Number of pubs	Land and buildings £m	Fixtures, fittings and equipment £m	Net book value[a] £m
Freehold properties	1,336	3,507	428	3,935
Long leasehold properties	95	259	36	295
Total revalued properties	1,431	3,766	464	4,230
Short leasehold properties		77	79	156
Unlicensed properties		14	2	16
Other non-pub assets		3	3	6
Assets under construction		5	13	18
Total property, plant and equipment		3,865	561	4,426

a. The carrying value of freehold and long leasehold properties based on their historical cost (or deemed cost at transition to IFRS) is £2,657m and £190m respectively (2018 £2,635m and £186m).

The tables below show, by class of asset, the number of properties that have been valued within each FMT and multiple banding:

	Valuation multiple applied to FMT					
28 September 2019	**Over 12 times**	**10 to 12 times**	**8 to 10 times**	**6 to 8 times**	**Under 6 times**	**Total**
Number of pubs in each FMT income banding:						
< £200k pa	**56**	**9**	**163**	**158**	**6**	**392**
£200k to £360k pa	**1**	**14**	**302**	**133**	**18**	**468**
> £360k pa	**1**	**59**	**430**	**61**	**16**	**567**
	58	**82**	**895**	**352**	**40**	**1,427**

	Valuation multiple applied to FMT					
29 September 2018	Over 12 times	10 to 12 times	8 to 10 times	6 to 8 times	Under 6 times	Total
Number of pubs in each FMT income banding:						
< £200k pa	48	6	166	170	10	400
£200k to £360k pa	–	12	311	138	15	476
> £360k pa	3	54	414	65	19	555
	51	72	891	373	44	1,431

Year-on-year movements in valuation multiples are the result of changes in property market conditions. The average weighted multiple is 8.6 (2018 8.6).

In addition to the above, premiums paid on acquiring a new lease are classified separately in the Group balance sheet. At 28 September 2019 an amount of £1m (2018 £1m) was included in the Group balance sheet.

Capital commitments

	2019 £m	2018 £m
Contracts placed for expenditure on property, plant and equipment not provided for in the financial statements	**19**	24

3.2 WORKING CAPITAL

Inventories

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

Inventories can be analysed as follows:

	2019 £m	2018 £m
Goods held for resale	**26**	26

Trade and other receivables

Accounting policy
Trade receivables and other receivables are initially recognised at fair value. Items are subsequently carried at amortised cost less an allowance for any lifetime expected credit losses (see financial assets impairment policy in note 4.4).

Trade and other receivables can be analysed as follows:

	2019 £m	2018 £m
Trade receivables	**7**	7
Other receivables	**15**	14
Prepayments	**41**	35
Total trade and other receivables	**63**	56

All amounts fall due within one year.

Trade receivables and other receivables are non-interest bearing. The Directors consider that the carrying amount of trade receivables and other receivables approximately equates to their fair value. A lifetime expected credit loss of £2m has been recognised against trade receivables and other receivables.

Credit risk is considered in note 4.4.

Trade and other payables

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

Trade and other payables can be analysed as follows:

	2019 £m	2018 £m
Trade payables	**88**	83
Other taxation and social security	**78**	64
Accrued charges	**104**	103
Other payables	**57**	52
Total trade and other payables	**327**	302

Current trade and other payables are non-interest bearing. The Directors consider that the carrying amount of trade and other payables approximately equates to their fair value.

3.3 PROVISIONS

Accounting policy
Provisions are recognised when the Group 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 (including rental costs and service charge) or the operating loss after rental costs and service charge. 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.

Critical accounting judgements
Determination of whether a loss is unavoidable requires areas of judgement such as consideration of potential future investment decisions or local conditions which may be impacting on current performance.

Provisions
The provision for unavoidable losses on onerous property leases has been set up to cover rental payments and service charge of vacant or loss-making properties. Payments are expected to continue on these properties for periods of 1 to 24 years.

Provisions can be analysed as follows:

	Onerous property provisions £m	Dilapidation provisions £m	Total property provisions £m
At 30 September 2017	42	–	42
Released in the period[a]	(6)	–	(6)
Provided in the period	10	1	11
Unwinding of discount	1	–	1
Utilised in the period	(5)	–	(5)
At 29 September 2018	42	1	43
Released in the period[a]	(9)	(1)	(10)
Provided in the period	8	1	9
Unwinding of discount	1	–	1
Utilised in the period	(7)	–	(7)
At 28 September 2019	**35**	**1**	**36**

a. Releases in the current and prior period primarily relate to improvement in performance of managed properties.

3.4 GOODWILL AND OTHER INTANGIBLE ASSETS

Accounting policies

Business combinations and goodwill

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values of assets given and liabilities incurred or assumed by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the income statement as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits (revised) respectively; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the identifiable assets acquired and the liabilities assumed at the acquisition date. If, after reassessment, the net of the identifiable assets acquired and liabilities assumed at the acquisition date exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree, the excess is recognised immediately in the income statement as a bargain purchase.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the contingent consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates, at fair value, with the corresponding gain or loss being recognised in the income statement.

When a business combination is achieved in stages, the Group's previously-held interests in the acquired entity is re-measured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in the income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Goodwill is not amortised, but is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. The impairment review requires management to consider the recoverable value of the business to which the goodwill relates, based on either the fair value less costs to sell or the value in use. Value in use calculations require management to consider the net present value of future cash flows generated by the business to which the goodwill relates. Fair value less costs to sell is based on management's estimate of the net proceeds which could be generated through disposing of that business. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss is recognised immediately in the income statement and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Computer software

Computer software and associated development costs, which are not an integral part of a related item of hardware, are capitalised as an intangible asset and amortised on a straight-line basis over their useful life. The period of amortisation ranges between three and seven years with the majority being five years.

Intangible assets

Intangible assets can be analysed as follows:

	Goodwill £m	Computer software £m	Total £m
Cost			
At 30 September 2017	7	14	21
Additions	–	4	4
Disposals	–	(2)	(2)
At 29 September 2018	7	16	23
Additions	–	6	6
Disposals	–	(6)	(6)
At 28 September 2019	**7**	**16**	**23**
Accumulated amortisation and impairment			
At 30 September 2017	5	6	11
Provided during the period	–	3	3
Disposals	–	(2)	(2)
At 29 September 2018	5	7	12
Provided during the period	–	3	3
Disposals	–	(6)	(6)
At 28 September 2019	**5**	**4**	**9**
Net book value			
At 28 September 2019	**2**	**12**	**14**
At 29 September 2018	2	9	11
At 30 September 2017	2	8	10

There are no intangible assets with indefinite useful lives. All amortisation charges have been expensed through operating costs.

Goodwill has been tested for impairment within each cash-generating-unit, on a site-by-site basis using forecast cash flows, discounted by applying a pre-tax discount rate of 7.7% (2018 7.5%). For the purposes of the calculation of the recoverable amount, the cash flow projections beyond the two-year period include 0.0% (2018 0.0%) growth per annum.

3.5 ASSOCIATES

Accounting policies

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Under the equity method, an investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. If after reassessment the Group's share of the net fair value of the identifiable assets and liabilities are in excess of the cost of the investment, this is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 36 Impairment of Assets are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss when the equity method is discontinued.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

The nature of the activities of all of the Group's associates is trading in pubs and restaurants, which are seen as complementing the Group's operations and contributing to the Group's overall strategy.

Associates can be analysed as follows:

	£m
Cost	
At 30 September 2017	–
Additions	5
At 29 September 2018	5
Additions	–
At 28 September 2019	**5**

Associates relate to shareholdings in 3Sixty Restaurants Limited and Fatboy Pub Company Limited that were acquired in the prior period. Details of these associates are provided in note 5.2.

There have been no events or changes in circumstance during the current period to indicate that the carrying amount of the investments in associates may not be recoverable. As such, no impairment has been recognised.

During the prior period, a put and call option agreement was entered into, which allows the Company to acquire the remaining 60% share capital of the associate, 3Sixty Restaurants Limited, at any point in time after three years from the initial purchase date. The initial 40% investment was purchased on 1 August 2018 for £4m. The current shareholders also have the ability under the option to sell the remaining 60% to the Company, subject to a number of conditions. The fair value of this option at 28 September 2019 is £1m (2018 £nil). This has been recognised as a financial asset at FVTPL (see note 4.4) and the gain deferred and recognised over the three year option life.

4.1 NET DEBT

Accounting policy
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. In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand.

Net debt
Net debt comprises cash and cash equivalents and cash deposits, net of borrowings. Borrowings (as defined in note 4.2) are included in net debt on a constant currency basis including the fixed exchange rate component of the cross currency swap (as described in note 4.4). Cash flows on the interest rate and cross currency swaps are shown within interest paid in the Group cash flow statement.

Net debt

	2019 £m	2018 £m
Cash and cash equivalents	**133**	122
Other cash deposits	**–**	120
Securitised debt (note 4.2)	**(1,752)**	(1,830)
Liquidity facility (note 4.2)	**–**	(147)
Derivatives hedging securitised debt[a] (note 4.2)	**55**	47
	(1,564)	(1,688)

a. Represents the element of the fair value of currency swaps hedging the balance sheet value of the Group's US$ denominated A3N loan notes. This amount is disclosed separately to remove the impact of exchange movements which are included in the securitised debt amount.

Movement in net debt

	2019 52 weeks £m	2018 52 weeks £m
Net increase/(decrease) in cash and cash equivalents	**11**	(25)
Add back cash flows in respect of other components of net debt:		
Transfers from other cash deposits	**(120)**	–
Repayment of principal in respect of securitised debt	**87**	82
Repayment of liquidity facility	**147**	–
Net movement on unsecured revolving facilities	**–**	6
Decrease in net debt arising from cash flows	**125**	63
Movement in capitalised debt issue costs net of accrued interest	**(1)**	(1)
Decrease in net debt	**124**	62
Opening net debt	**(1,688)**	(1,750)
Closing net debt	**(1,564)**	(1,688)

The net debt movement for the 52 weeks ended 28 September 2019 is represented by:

	At 29 September 2018 £m	Cash flow movements in the period £m	Non-cash movements in the period £m	Foreign currency movements £m	**At 28 September 2019 £m**
Securitised debt	(1,830)	87	(1)	(8)	**(1,752)**
Liquidity facility	(147)	147	–	–	**–**
Derivatives hedging securitised debt	47	–	–	8	**55**
Total liabilities arising from financing activities	(1,930)	234	(1)	–	**(1,697)**
Cash and cash equivalents	122	11	–	–	**133**
Other cash deposits	120	(120)	–	–	**–**
Net debt	(1,688)	125	(1)	–	**(1,564)**

The net debt movement for the 52 weeks ended 29 September 2018 is represented by:

	At 30 September 2017 £m	Cash flow movements in the period £m	Non-cash movements in the period £m	Foreign currency movements £m	At 29 September 2018 £m
Securitised debt	(1,909)	82	(1)	(2)	(1,830)
Liquidity facility	(147)	–	–	–	(147)
Revolving credit facilities	(6)	6	–	–	–
Derivatives hedging securitised debt	45	–	–	2	47
Total liabilities arising from financing activities	(2,017)	88	(1)	–	(1,930)
Cash and cash equivalents	147	(25)	–	–	122
Other cash deposits	120	–	–	–	120
Net debt	(1,750)	63	(1)	–	(1,688)

4.2 BORROWINGS

Accounting policy

Borrowings, which include the Group's secured loan notes, 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. Borrowing costs are not attributed to the acquisition or construction of assets and therefore no costs are capitalised within property, plant and equipment.

Borrowings can be analysed as follows:

	2019 £m	2018 £m
Current		
Securitised debt[a,b]	**95**	86
Liquidity facility	**–**	147
Total current	**95**	233
Non-current		
Securitised debt[a,b]	**1,657**	1,744
Total borrowings	**1,752**	1,977

a. Further details of the assets pledged as security against the securitised debt are given on page 123.
b. Stated net of deferred issue costs.

	2019 £m	2018 £m
Analysis by year of repayment		
Due within one year or on demand	**95**	233
Due between one and two years	**158**	142
Due between two and five years	**347**	328
Due after five years	**1,152**	1,274
Total borrowings	**1,752**	1,977

Securitised debt

On 13 November 2003, the Group refinanced its debt by raising £1,900m through a securitisation of the majority of its UK pubs and restaurants owned by Mitchells & Butlers Retail Limited ('MAB Retail'). On 15 September 2006 the Group completed a further debt ('tap') issue to borrow an additional £655m and refinance £450m of existing debt at lower cost.

The loan notes consist of 10 tranches as follows:

					Principal outstanding		
Tranche	Initial principal borrowed £m	Interest	Principal repayment period (all by instalments)	Effective interest rate %	**28 September 2019 £m**	29 September 2018 £m	Expected WAL[a]
A1N	200	Floating	2011 to 2028	6.21[b]	**121**	131	5 years
A2	550	Fixed–5.57%	2003 to 2028	6.01	**220**	240	5 years
A3N	250	Floating	2011 to 2028	6.29[b]	**152[c]**	165[c]	5 years
A4	170	Floating	2016 to 2028	5.97[b]	**139**	150	5 years
AB	325	Floating	2020 to 2032	6.28[b]	**325**	325	9 years
B1	350	Fixed–5.97%	2003 to 2023	6.12	**84**	102	2 years
B2	350	Fixed–6.01%	2015 to 2028	6.12	**297**	312	6 years
C1	200	Fixed–6.47%	2029 to 2030	6.56	**200**	200	10 years
C2	50	Floating	2033 to 2034	6.47[b]	**50**	50	14 years
D1	110	Floating	2034 to 2036	6.68[b]	**110**	110	16 years
	2,555				**1,698**	1,785	

a. Expected weighted average life (WAL) assumes no early redemption in respect of any loan notes.
b. After the effect of interest rate swaps.
c. A3N notes are US$ notes which are shown as translated to sterling at the hedged swap rate. Values at the period end spot rate are £207m (2018 £212m). Therefore the exchange difference on the A3N notes is £55m (2018 £47m).

The notes are secured on the majority of the Group's property and future income streams therefrom. All of the floating rate notes are hedged using interest rate swaps which fix the interest rate payable.

Interest and margin is payable on the floating rate notes as follows:

Tranche	Interest	Margin
A1N	3 month LIBOR	0.45%
A3N	3 month US$ LIBOR	0.45%
A4	3 month LIBOR	0.58%
AB	3 month LIBOR	0.60%
C2	3 month LIBOR	1.88%
D1	3 month LIBOR	2.13%

The overall cash interest rate payable on the loan notes is 6.2% (2018 6.2%) after taking account of interest rate hedging and the cost of the provision of a financial guarantee provided by Ambac in respect of the Class A and AB notes.

The securitisation is governed by various covenants, warranties and events of default, many of which apply to Mitchells & Butlers Retail Limited, 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. At 28 September 2019, Mitchells & Butlers Retail Limited had cash and cash equivalents of £61m (2018 £54m). Of this amount £1m (2018 £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.

The carrying value of the securitised debt in the Group balance sheet is analysed as follows:

	2019 £m	2018 £m
Principal outstanding at beginning of period	**1,832**	1,911
Principal repaid during the period	**(87)**	(82)
Exchange on translation of dollar loan notes	**8**	3
Principal outstanding at end of period	**1,753**	1,832
Deferred issue costs	**(4)**	(5)
Accrued interest	**3**	3
Carrying value at end of period	**1,752**	1,830

Liquidity facility
Under the terms of the securitisation, the Group holds a liquidity facility of £295m provided by two counterparties. As a result of the decrease in credit rating of one of the counterparties, the Group was obliged to draw that counterparty's portion of the facility during the 52 weeks ended 27 September 2014. During the period the Group novated part of the facility to a higher rated counterparty and repaid the amount drawn. The amount drawn at 28 September 2019 is £nil (2018 £147m).

The facility, which is not available for any other purpose, is sized to cover 18 months debt service.

Unsecured revolving credit facilities
The Group holds three unsecured committed revolving credit facilities of £50m each, and uncommitted revolving credit facilities of £15m, available for general corporate purposes. The amount drawn at 28 September 2019 is £nil (2018 £nil). All committed facilities expire on 31 December 2020.

4.3 FINANCE COSTS AND REVENUE

	2019 52 weeks £m	2018 52 weeks £m
Finance costs		
Interest on securitised debt	**(109)**	(114)
Interest on other borrowings	**(4)**	(4)
Unwinding of discount on provisions (note 3.3)	**(1)**	(1)
Total finance costs	**(114)**	(119)
Finance revenue		
Interest receivable – cash	**1**	1
Net pensions finance charge (note 4.5)	**(7)**	(7)

4.4 FINANCIAL INSTRUMENTS

Accounting policies

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group 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.

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.

Impairment of financial assets

The Group 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 Group adopts the simplified approach detailed in IFRS 9 for trade receivables and other receivables and therefore recognises lifetime ECL on these assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group'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 Group 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 Group 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 Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria 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 Group, in full (without taking into account any collateral held by the Group).

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 Group 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 Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

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 Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial asset 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 Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which the simplified approach was used.

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

Derecognition of financial assets
The Group 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 Group does not retain substantially all the risks and rewards of ownership but continues to control a transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group 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 Group has financial liabilities relating to borrowings, for which the accounting policy is provided in note 4.2. 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 Group derecognises financial liabilities when, and only when, the Group'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.

Derivative financial instruments
The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including interest rate and currency 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 Group has both the current legal right to offset and 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.

4.4 FINANCIAL INSTRUMENTS CONTINUED

Hedge accounting

The Group designates its derivative financial instruments, i.e. interest rate and currency swaps, as cash flow hedges.

At the inception of the hedge relationship, the Group 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 Group 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 Group actually hedges and the quantity of the hedging instrument that the Group 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 Group 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 Group 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.

Financial risk management

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.

An explanation of the Group's financial instrument risk management objectives and strategies is set out below.

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

The current funding arrangements of the Group consist of the securitised notes issued by Mitchells & Butlers Finance plc (and associated liquidity facility) along with three committed unsecured revolving credit facilities of £50m each. The terms of the securitisation and the revolving credit facilities contain various financial covenants. Compliance with these covenants is monitored by Group Treasury. The Group also has uncommitted credit facilities of £15m.

The Group 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 Group. A combination of cash pooling and zero balancing agreements are in place to ensure the optimum liquidity position is maintained. The Group maintains sufficient cash balances or committed facilities outside the securitisation to ensure that it can meet its medium-term anticipated cash flow requirements.

The maturity table below details the contractual undiscounted cash flows (both principal and interest), based on the prevailing period end interest and exchange rates, for the Group's financial liabilities, after taking into account the effect of interest rate and currency swaps and assumes no early redemption in respect of any loan notes.

	Within one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	More than five years £m	Total £m
28 September 2019							
Securitised debt – loan notes	**(171)**	**(175)**	**(177)**	**(179)**	**(180)**	**(1,381)**	**(2,263)**
Cash flow hedges	**(27)**	**(26)**	**(24)**	**(21)**	**(20)**	**(106)**	**(224)**
Fixed rate: Securitised debt	**(198)**	**(201)**	**(201)**	**(200)**	**(200)**	**(1,487)**	**(2,487)**
Trade and other payables	**(327)**	**–**	**–**	**–**	**–**	**–**	**(327)**
29 September 2018							
Securitised debt – loan notes	(165)	(170)	(174)	(176)	(177)	(1,554)	(2,416)
Cash flow hedges	(30)	(28)	(27)	(25)	(23)	(133)	(266)
Fixed rate: Securitised debt	(195)	(198)	(201)	(201)	(200)	(1,687)	(2,682)
Floating rate: Liquidity facility	(147)	–	–	–	–	–	(147)
Trade and other payables	(302)	–	–	–	–	–	(302)

Credit risk

The Group Treasury function enters into contracts with third parties in respect of derivative financial instruments for risk management purposes and the investment of surplus funds. These activities expose the Group to credit risk against the counterparties. To mitigate this exposure, Group Treasury operates policies that restrict the investment of surplus funds and the entering into of derivative transactions to counterparties that have a minimum credit rating of 'A' (long-term) and 'A1'/'P1'/'F1' (short-term). 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 Treasury Committee on a four-weekly basis.

Credit risk is 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 Group 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 Group suppliers as the Group 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.

The Group's credit exposure at the balance sheet date was:

	FVTPL 2019 £m	**12 month ECL 2019 £m**	Lifetime ECL 2019 £m	**Total 2019 £m**	Total 2018 £m
Cash and cash equivalents	**–**	**133**	–	**133**	122
Other cash deposits	**–**	**–**	–	**–**	120
Trade receivables	**–**	**–**	7	**7**	7
Other receivables	**–**	**–**	15	**15**	14
Derivatives	**56**	**–**	–	**56**	48

Capital management

The Group's capital base is comprised of its net debt (analysed in note 4.1) plus total equity (disclosed on the face of the Group balance sheet). The objective is to maintain a capital base which is sufficiently strong to support the ongoing development of the business as a going concern, including the amenity, and cash flow generation of the pub estate. By keeping debt and headroom against its debt facilities at an appropriate level, the Group ensures that it maintains a strong credit position, whilst maximising value for shareholders and adhering to its covenants and other restrictions associated with its debt (see note 4.2). In managing its capital structure, from time to time the Group may realise value from non-core assets, buy back or issue new shares, initiate and vary its dividend payments and seek to vary or accelerate debt repayments. The Group's policy is to ensure that the maturity of its debt profile supports its strategic objectives. The Board considers the latest covenant compliance, headroom projections and projected balance sheet positions periodically throughout the year, based on the advice of the Treasury Committee which meets on a four-weekly basis. The Treasury Committee is chaired by the Group Treasurer and monitors Treasury performance and compliance with Board-approved policies. The Group Chief Financial Officer is also a member of the Committee.

Total capital at the balance sheet date is as follows:

	2019 £m	2018 £m
Net debt (note 4.1)	**1,564**	1,688
Total equity	**1,947**	1,769
Total capital	**3,511**	3,457

4.4 FINANCIAL INSTRUMENTS CONTINUED

Market risk

The Group 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 comprises foreign currency and interest rate risk.

Foreign currency risk

The most significant currency risk the Group faces is in relation to the class A3N floating rate notes. At issuance of these notes, the Group entered into a cross currency interest rate swap to manage the foreign currency exposure resulting from both the US$ principal and initial interest elements of the notes. The A3N notes have a carrying value of £207m (2018 £212m) and form part of the securitised debt (see note 4.2).

Sensitivity analysis

Further to the step-up on the A3N notes on 15 December 2010, the Group has additional foreign currency exposure as a result of the increase in US$ finance costs. A movement of 10% in the US$ exchange rate would have £nil (2018 £nil) impact on the reported Group profit and £21m (2018 £21m) impact on the reported Group equity.

The Group has no significant profit and loss exposure as a result of retranslating monetary assets and liabilities at different exchange rates. As the Group is predominantly UK based and acquires the majority of its supplies in sterling, it has no significant direct currency exposure from its operations.

Interest rate risk

The Group 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. Where the necessary criteria are met, the Group minimises the volatility in its consolidated financial statements through the adoption of the hedge accounting provisions permitted under IFRS 9. The interest rate exposure resulting from the Group's £1.8bn securitisation is largely 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 effective interest rate swaps are held, which are eligible for hedge accounting.

Sensitivity analysis

The sensitivity analysis below has been calculated based on the Group's exposure to interest rates for both derivative and non-derivative instruments as at the balance sheet date. A 1% movement is used when reporting interest rate risk internally to key management personnel and represents management's assessment of this reasonably possible change in interest rates.

For floating rate liabilities, which are not hedged by derivative instruments, the analysis has been prepared assuming that the liability outstanding at the balance sheet date was outstanding for the whole period. For interest income the analysis assumes that cash and cash equivalents and other cash deposits that were held in interest bearing accounts at the balance sheet date were held for the whole period.

The Group's sensitivity to a 1% increase in interest rates is detailed below:

	2019 £m	2018 £m
Interest income[a]	1	2
Interest expense[b]	–	(1)
Profit impact	1	1
Derivative financial instruments (fair values)[c]	72	76
Total equity	73	77

a. Represents interest income earned on cash and cash equivalents and other cash deposits (these are defined in note 4.1).
b. The element of interest expense which is not matched by payments and receipts under cash flow hedges which would otherwise offset the interest rate exposure of the Group.
c. The impact on total equity from movements in the fair value of cash flow hedges.

Derivative financial instruments

Cash flow hedges

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

	2019 £m	2018 £m
(Losses)/gains arising during the period	(81)	16
Reclassification adjustments for losses included in profit or loss	23	34
	(58)	50

Cash flow hedges – securitised borrowings

At 28 September 2019, the Group held ten (2018 ten) interest rate swap contracts with a nominal value of £897m (2018 £931m), designated as a hedge of the cash flow interest rate risk of £897m (2018 £931m) of the Group's floating rate borrowings, comprising the A1N, A3N, A4, AB, C2 and D1 loan notes.

The cash flows on these contracts occur quarterly, receiving a floating rate of interest based on LIBOR and paying a fixed rate of 4.8399% (2018 4.8483%). The contract maturity dates match those of the hedged item. The ten interest rate swaps are held on the Group balance sheet at fair market value, which is a liability of £302m (2018 £244m).

At 28 September 2019 the Group held one (2018 one) cross currency interest rate swap contract, with a nominal value of £152m (2018 £165m), designated as a hedge of the cash flow interest rate and currency risk of the Group's US$ denominated A3N floating rate $254m (2018 $276m) notes. The cross currency interest rate swap is held on the Group balance sheet at a fair value asset of £55m (2018 £48m).

The cash flows on this contract occur quarterly, receiving a floating rate of interest based on US$ LIBOR and paying a floating rate of interest at LIBOR in sterling.

The cash flows arising from interest rate swap positions on the same counterparty may be settled as a net position. The cross currency interest rate swap is held under a separate agreement and cash movements for this instrument are settled individually.

Share options

During the prior period, a put and call option agreement was entered into, which allows the Company to acquire the remaining 60% share capital of the associate, 3Sixty Restaurants Limited, at any point in time after three years from the initial purchase date. The initial 40% investment was purchased on 1 August 2018 for £4m (see note 3.5). The current shareholders also have the ability under the option to sell the remaining 60% to the company, subject to a number of conditions. The fair value of this option at 28 September 2019 is £1m (2018 £nil). This has been recognised as a financial asset and the gain deferred and recognised over the three year option life.

Fair values of derivative financial instruments

The fair values of the derivative financial instruments were measured at 28 September 2019 and may be subject to material movements in the period subsequent to the balance sheet date. The fair values of the derivative financial instruments are reflected on the balance sheet as follows:

	Derivative financial instruments – fair value				
	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	Total £m
Cash flow hedges at FVTOCI:					
– Interest rate swaps	**–**	**–**	**(36)**	**(266)**	**(302)**
– Cross currency swap	**52**	**3**	**–**	**–**	**55**
Share options at FVTPL	**1**	**–**	**–**	**–**	**1**
28 September 2019	**53**	**3**	**(36)**	**(266)**	**(246)**
29 September 2018	44	4	(37)	(207)	(196)

Reconciliation of movements in derivative values

The tables below details changes in the Group's derivatives, including both cash and non-cash changes where appropriate. Changes in the Group's borrowings are disclosed in the net debt reconciliation in note 4.1.

Movements in derivative values for the 52 weeks ended 28 September 2019 are represented by:

	At 29 September 2018 £m	Cash movements £m	Fair value adjustments £m	**At 28 September 2019 £m**
Cash flow hedges	(196)	31	(82)	**(247)**
Share options	–	–	1	**1**
Total derivatives	(196)	31	(81)	**(246)**

Movements in derivative values for the 52 weeks ended 29 September 2018 are represented by:

	At 30 September 2017 £m	Cash movements £m	Fair value adjustments £m	At 29 September 2018 £m
Cash flow hedges	(249)	37	16	(196)
Total derivatives	(249)	37	(16)	(196)

4.4 FINANCIAL INSTRUMENTS CONTINUED

Fair value of financial assets and liabilities

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

	2019		2018	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Financial assets at amortised cost:				
– Cash and cash equivalents	**133**	**133**	122	122
– Other cash deposits	**–**	**–**	120	120
– Trade and other receivables	**7**	**7**	7	7
– Other receivables	**15**	**15**	14	14
Financial assets – derivatives:				
– Derivative instruments in designated hedge accounting relationships	**55**	**55**	48	48
– Share options	**1**	**1**	–	–
Financial liabilities at amortised cost:				
– Borrowings (note 4.2)	**(1,752)**	**(1,695)**	(1,977)	(1,939)
– Trade and other payables	**(88)**	**(88)**	(83)	(83)
– Other taxation and social security	**(78)**	**(78)**	(64)	(64)
– Other payables	**(57)**	**(57)**	(52)	(52)
– Accrued charges	**(104)**	**(104)**	(103)	(103)
Financial liabilities – derivatives:				
– Derivative instruments in designated hedge accounting relationships	**(302)**	**(302)**	(244)	(244)
	(2,170)	**(2,113)**	(2,212)	(2,174)

Borrowings have been valued as level 1 financial instruments, as the various tranches of the securitised debt have been valued using period end quoted offer prices. As the securitised debt is traded on an active market, the market value represents the fair value of this debt. The fair value of interest rate and currency swaps is the estimated amount which the Group could expect to pay or receive on termination of the agreements. These amounts are based on quotations from counterparties which approximate to their fair market value and take into consideration interest and exchange 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.

Fair value of derivative financial instruments

The fair value of the Group's derivative financial instruments is calculated by discounting the expected future cash flows of each instrument at an appropriate discount rate to a 'mark to market' position and then adjusting this to reflect any non-performance risk associated with the counterparties to the instrument.

IFRS 13 Financial Instruments requires the Group'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.

The table below sets out the valuation basis of derivative financial instruments held at fair value by the Group:

Fair value at 28 September 2019	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets:				
Currency swaps	**–**	**55**	**–**	**55**
Share options	**–**	**–**	**1**	**1**
Financial liabilities:				
Interest rate swaps	**–**	**(302)**	**–**	**(302)**
	–	**(247)**	**1**	**(246)**

Fair value at 29 September 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Currency swaps	–	48	–	48
Financial liabilities:				
Interest rate swaps	–	(244)	–	(244)
	–	(196)	–	(196)

4.5 PENSIONS

Accounting policy

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. The defined benefit section of the plans is now closed to future service accrual. The defined benefit liability relates to these 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.

In addition, Mitchells & Butlers plc also provides a workplace pension plan in line with the Workplace Pensions Reform Regulations. This automatically enrols all eligible workers into a Qualifying Workplace Pension Plan.

As the Company does not have an unconditional right to recover any surplus from the pension plans, IFRIC 14 requires the minimum funding liability to be recognised, where it is in excess of the actuarial liability. As such, the total pension liability recognised in the balance sheet in respect of the Group's defined benefit arrangements is the greater of the minimum funding requirements, calculated as the present value of the agreed schedule of contributions, and the actuarial calculated liability. The actuarial liability is the present value of the defined benefit obligation, less the fair value of the scheme assets. The cost of providing benefits is determined using the projected unit credit method as determined annually by qualified actuaries. This is based on a number of financial assumptions and estimates, the determination of which may be significant to the balance sheet valuation in the event that this reflects a greater deficit than that suggested by the schedule of minimum contributions.

There is no current service cost as all defined benefit schemes are closed to future accrual. The net pension finance charge, calculated by applying the discount rate to the pension deficit or surplus at the beginning of the period, is shown within finance income or expense. The administration costs of the scheme are recognised within operating costs in the income statement.

Re-measurement comprising actuarial gains and losses, the effect of minimum funding requirements, and the return on scheme assets are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur.

Curtailments and settlements relating to the Group's defined benefit plan are recognised in the income statement in the period in which the curtailment or settlement occurs.

For the defined contribution arrangements, the charge against profit is equal to the amount of contributions payable for that period.

Critical accounting judgements

The calculation of the defined benefit liability requires management judgement to select an appropriate high-quality corporate bond to determine the discount rate. The most significant criteria considered for the selection of bonds include the rating of the bonds and the currency and estimated term of the retirement benefit liabilities.

In addition, management have used judgement to determine the applicable rate of inflation to apply to pension increases in calculating the defined benefit obligation. Details of this are given below.

Measurement of scheme assets and liabilities

Actuarial valuation

The actuarial valuations used 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' independent qualified actuaries to 28 September 2019. Scheme assets are stated at market value at 28 September 2019 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. IAS 19 (revised) requires that the scheme liabilities are discounted using market yields at the end of the period on high-quality corporate bonds.

In relation to the MABPP, the Trust Deed and Rules provide that it is a matter for the Company to determine the rate of inflation which should be applied to pension increases for certain sections of the membership in excess of guaranteed minimum pensions and the Company has instructed the Trustee to apply CPI (subject to certain caps) in respect of such increases. The Trustee believes that this power was incorrectly vested in the Company in the Trust Deed and Rules of the MABPP in 1996 and, despite it being reflected in further versions, has made an application to court for those various Trust Deeds and Rules to be rectified. It is the Board's belief that the Company holds the power to fix such an inflation index and the Company is therefore contesting that application. The hearing is expected to be held in mid-2020. The actuarial surplus as determined under IAS 19 (revised) has continued to be calculated using RPI, pending final resolution of the matter. The applicable rate of CPI at 28 September 2019 is 2.1%. Leaving all other principal financial assumptions constant, the impact of this change on the defined benefit obligation as measured under IAS 19 (revised) is estimated to be a reduction of £165m. However (under IFRIC 14) an additional liability is recognised such that the total balance sheet position reflects the schedule of contributions agreed by the Company, extending to 2023. As such should the Company be successful in contesting the application there will be no necessary movement in the total balance sheet position.

The principal financial assumptions have been updated to reflect changes in market conditions in the period and are as follows:

	2019		2018	
	Main plan	**Executive plan**	Main plan	Executive plan
Discount rate[a]	**1.8%**	**1.8%**	2.9%	2.9%
Pensions increases – RPI max 5%	**3.0%**	**3.0%**	3.0%	3.0%
Inflation rate – RPI	**3.1%**	**3.1%**	3.2%	3.2%

a. The discount rate is based on a yield curve for AA corporate rated bonds which are consistent with the currency and estimated term of retirement benefit liabilities.

4.5 PENSIONS CONTINUED

The mortality assumptions were reviewed following the 2019 actuarial valuation. A summary of the average life expectancies assumed is as follows:

	2019		2018	
	Main plan years	**Executive plan years**	Main plan years	Executive plan years
Male member aged 65 (current life expectancy)	**20.9**	**23.4**	21.2	23.9
Male member aged 45 (life expectancy at 65)	**22.7**	**24.5**	23.0	25.6
Female member aged 65 (current life expectancy)	**23.2**	**24.3**	23.6	26.0
Female member aged 45 (life expectancy at 65)	**25.3**	**26.3**	25.5	27.9

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, the Company 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). 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 employer contributions expected to be paid during the financial period ending 27 September 2020 amount to £50m.

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

Sensitivity to changes in actuarial assumptions

The sensitivities regarding principal actuarial assumptions, assessed in isolation, that have been used to measure the scheme liabilities are set out below.

2019	**Increase or (decrease) in actuarial surplus 2019 £m**	**Decrease or (increase) in total pension liability 2019 £m**
0.5% increase in discount rate[a]	**207**	**5**
0.1% increase in inflation rate	**(41)**	**(1)**
Additional one-year decrease to life expectancy	**90**	**2**

2018	Increase or (decrease) in actuarial surplus 2018 £m	Decrease or (increase) in total pension liability 2018 £m
0.5% increase in discount rate[a]	37	1
0.1% increase in inflation rate	(34)	(1)
Additional one-year decrease to life expectancy	72	1

a. The discount rate sensitivity disclosed for 2019 is a higher sensitivity of 0.5%, compared to 0.1% in 2018. This has increased to reflect a reasonably possible change in discount rate as a result of volatility in the discount rate in recent years.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated. In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position.

Principal risks and assumptions
The defined benefit schemes are not exposed to any unusual, entity specific or scheme specific risks but there are general risks:

Inflation – the majority of the plans' obligations are linked to inflation. Higher inflation will lead to increased liabilities which is partially offset by the plans holding inflation linked gilts and other inflation linked assets.

Interest rate – The plans' liabilities are determined using discount rates derived from yields on AA-rated corporate bonds. A decrease in corporate bond yields will increase plan liabilities though this will be partially offset by an increase in the value of the bonds held by the plans.

Mortality – The majority of the obligations are to provide benefits for the life of the members and their partners, so any increase in life expectancy will result in an increase in the plans' liabilities.

Asset returns – Assets held by the pension plans are invested in a diversified portfolio of equities, bonds and other assets. Volatility in asset values will lead to movements in the net deficit/surplus reported in the Group balance sheet for the plans which in addition will also impact the pension finance charge in the Group income statement.

Amounts recognised in respect of defined benefit schemes
The following amounts relating to the Group's defined benefit and defined contribution arrangements have been recognised in the Group income statement and Group statement of comprehensive income:

Group income statement

	2019 52 weeks £m	2018 52 weeks £m
Operating profit:		
Employer contributions (defined contribution plans)	**(12)**	(8)
Administrative costs (defined benefit plans)	**(3)**	(2)
Charge to operating profit before adjusted items	**(15)**	(10)
Past service cost (see note 2.2)	**(19)**	–
Charge to operating profit	**(34)**	(10)
Finance costs:		
Net pensions finance income on actuarial surplus	**10**	5
Additional pensions finance charge due to minimum funding	**(17)**	(12)
Net finance charge in respect of pensions	**(7)**	(7)
Total charge	**(41)**	(17)

Group statement of comprehensive income

	2019 52 weeks £m	2018 52 weeks £m
Return on scheme assets and effects of changes in assumptions	**(77)**	114
Movement in pension liability recognised due to minimum funding	**92**	(109)
Remeasurement of pension liability	**15**	5

Group balance sheet

	2019 £m	2018 £m
Fair value of scheme assets	**2,739**	2,404
Present value of scheme liabilities	**(2,443)**	(2,068)
Actuarial surplus in the schemes	**296**	336
Additional liability recognised due to minimum funding	**(511)**	(585)
Total pension liability[a]	**(215)**	(249)
Associated deferred tax asset	**36**	43

a. The total pension liability of £215m (2018 £249m) is presented as a £50m current liability (2018 £49m) and a £165m non-current liability (2018 £200m).

4.5 PENSIONS CONTINUED

The movement in the fair value of the schemes' assets in the period is as follows:

	Scheme assets	
	2019 £m	2018 £m
Fair value of scheme assets at beginning of period	**2,404**	2,390
Interest income	**69**	63
Remeasurement gain:		
– Return on scheme assets (excluding amounts included in net finance charge)	**312**	23
Additional employer contributions	**49**	48
Benefits paid	**(92)**	(118)
Administration costs	**(3)**	(2)
At end of period	**2,739**	2,404

Changes in the present value of defined benefit obligations are as follows:

	Defined benefit obligation	
	2019 £m	2018 £m
Present value of defined benefit obligation at beginning of period	**(2,068)**	(2,219)
Interest cost	**(59)**	(58)
Past service cost	**(19)**	–
Benefits paid	**92**	118
Remeasurement losses:		
– Effect of changes in demographic assumptions	**26**	–
– Effect of changes in financial assumptions	**(420)**	100
– Effect of experience adjustments	**5**	(9)
At end of period[a]	**(2,443)**	(2,068)

a. The defined benefit obligation comprises £38m (2018 £33m) relating to the MABETUS unfunded plan and £2,405m (2018 £2,035m) relating to the funded plans.

The weighted average duration of the defined benefit obligation is 19 years (2018 20 years).

The major categories and fair values of assets of the MABPP and MABEPP schemes at the end of the reporting period are as follows:

	2019 £m	2018 £m
Cash and equivalents	**109**	111
Equity instruments	**502**	626
Debt instruments:		
– Bonds	**2,481**	1,513
– Real estate debt	**75**	76
– Infrastructure debt	**118**	95
– Secured income debt	**158**	80
– Absolute return bond funds	**233**	202
– Gilt repurchase transactions	**(950)**	(303)
Gold	**8**	8
Forward foreign exchange contracts	**5**	(4)
Fair value of assets	**2,739**	2,404

The actual investment return achieved on the scheme assets over the period was 16.0% (2018 4.3%), which represented a gain of £381m (2018 £86m).

Virtually all equity instruments, bonds and gold have quoted prices in active markets and are classified as Level 1 instruments. Absolute return bond funds, gilt repurchase transactions and forward foreign exchange contracts are classified as Level 2 instruments. Real estate debt and infrastructure debt are classified as Level 3 instruments.

In the 52 weeks ended 28 September 2019 the Group paid £11m (2018 £7m) in respect of the defined contribution arrangements, with an additional £3m (2018 £2m) outstanding as at the period end.

At 28 September 2019 the MABPP owed £1m (2018 £1m) to the Group in respect of expenses paid on its behalf. This amount is included in other receivables in note 3.2.

4.6 SHARE-BASED PAYMENTS

Accounting policy
The Group operates a number of equity-settled share-based compensation plans, whereby, subject to meeting any relevant conditions, employees are awarded shares or rights over shares. 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 on a straight-line basis 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 employment of the Group. Fair values are calculated using either the Black-Scholes, Binomial or Monte Carlo simulation models depending on the conditions attached to the particular share scheme.

SAYE share options granted to employees are treated as cancelled when employees cease to contribute to the scheme. This results in an accelerated recognition of the expense that would have arisen over the remainder of the original vesting period.

Schemes in operation
The net charge recognised for share-based payments in the period was £3m (2018 £3m).

The Group had four equity-settled share schemes (2018 four) in operation during the period; the Performance Restricted Share Plan (PRSP); Sharesave Plan; Share Incentive Plan (SIP) and Short Term Deferred Incentive Plan (STDIP).

The vesting of all awards or options is generally dependent upon participants remaining in the employment of a participating company during the vesting period. Further details on each scheme are provided in the Report on Directors' remuneration on pages 76 to 97.

The following tables set out weighted average information about how the fair value of each option grant was calculated:

	2019		2018	
	Performance Restricted Share Plan	**Sharesave Plan**	Performance Restricted Share Plan	Sharesave Plan
Valuation model	**Monte Carlo and Binomial**	**Black-Scholes**	Monte Carlo and Binomial	Black-Scholes
Weighted average share price	**272.4p**	**281.5p**	259.2p	264.2p
Exercise price[a]	**–**	**242.0p**	–	246.0p
Expected dividend yield[b]	**–**	**0%**	–	1.97%
Risk-free interest rate	**0.79%**	**0.59%**	0.68%	0.86%
Volatility[c]	**31.4%**	**30.49%**	32.5%	31.0%
Expected life (years)[d]	**3.0**	**4.0**	2.4	4.0
Weighted average fair value of grants during the period	**240.3p**	**87.0p**	224.2p	61.3p

a. The exercise price for the Performance Restricted Share Plan is £1 per participating employee.
b. The expected dividend yield for the Sharesave Plan has used historical dividend information. For details on the Group's current dividend policy refer to the Financial review on page 48. The expected dividend yield for the Performance Restricted Share Plan options is zero as participants are entitled to Dividend Accrued Shares to the value of ordinary dividends paid or payable during the vesting period.
c. The expected volatility is determined by calculating the historical volatility of the Company's share price commensurate with the expected term of the options and share awards.
d. The expected life of the options represents the average length of time between grant date and exercise date.

The fair value of awards under the Short Term Deferred Incentive Plan and the Share Incentive Plan are equal to the share price on the date of award as there is no price to be paid and employees are entitled to Dividend Accrued Shares to the value of ordinary dividends paid or payable during the vesting period. The assumptions set out above are therefore not relevant to these schemes. The fair value of options granted under the Share Incentive Plan during the period was 281.5p (2018 264.2p). The fair value of options granted under the Short Term Deferred Incentive Plan during the period was 272.4p (2018 260.6p).

The tables below summarise the movements in outstanding options during the period.

	Number of shares		Weighted average exercise price	
	2019 m	2018 m	**2019 p**	2018 p
Sharesave plan				
Outstanding at the beginning of the period	**4.1**	4.1	**256.0**	264.1
Granted	**2.0**	1.3	**242.0**	246.0
Exercised	**–**	(0.1)	**230.9**	182.2
Forfeited	**(0.7)**	(0.8)	**246.2**	257.3
Expired	**(0.4)**	(0.4)	**348.0**	323.5
Outstanding at the end of the period	**5.0**	4.1	**244.0**	256.0
Exercisable at the end of the period	**–**	–	**–**	–

The outstanding options for the SAYE scheme had an exercise price of between 221.0p and 362.0p (2018 between 221.0p and 362.0p) and the weighted average remaining contract life was 2.8 years (2018 2.8 years). The number of forfeited shares in the period includes 400,999 (2018 545,646) cancellations.

SAYE options were exercised on a range of dates. The average share price through the period was 284.4p (2018 258.4p).

4.6 SHARE-BASED PAYMENTS CONTINUED

	Number of shares 2019 m	Number of shares 2018 m
Share Incentive Plan		
Outstanding at the beginning of the period	**1.8**	1.7
Granted	**0.4**	0.4
Exercised	**(0.2)**	(0.2)
Forfeited	**(0.1)**	(0.1)
Outstanding at the end of the period	**1.9**	1.8
Exercisable at the end of the period	**0.9**	0.8

Options under the Share Incentive Plan are capable of remaining within the SIP trust indefinitely while participants continue to be employed.

	Number of shares 2019 m	Number of shares 2018 m
Performance Restricted Share Plan		
Outstanding at the beginning of the period	**6.1**	5.2
Granted	**2.1**	2.2
Forfeited	**(0.1)**	(0.2)
Expired	**(1.9)**	(1.1)
Outstanding at the end of the period	**6.2**	6.1
Exercisable at the end of the period	**–**	–

The exercise price for the Performance Restricted Share Plan is £1 per participating employee, therefore the weighted average exercise price for these options is £nil (2018 £nil).

Options outstanding at 28 September 2019 had an exercise price of £nil and a weighted average remaining contractual life of 3.2 years (2018 3.2 years).

4.7 EQUITY

Accounting policies

Own shares

The cost of own shares held in employee share trusts and in treasury are deducted from shareholders' equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, the fair value of any consideration received is also included in shareholders' equity.

Dividends

Dividends proposed by the Board but unpaid at the period end are not recognised in the financial statements until they have been approved by shareholders at the Annual General Meeting. Interim dividends are recognised when paid.

Scrip dividends are fully paid up from the share premium account. They are accounted for as an increase in share capital for the nominal value of the shares issued, and a resulting reduction in share premium.

Called up share capital

	2019 Number of shares	2019 £m	2018 Number of shares	2018 £m
Allotted, called up and fully paid				
Ordinary shares of $8\frac{13}{24}$p each				
At start of period	**428,310,823**	**37**	422,548,604	36
Share capital issued[a]	**266,937**	**–**	5,762,219	1
At end of period	**428,577,760**	**37**	428,310,823	37

a. The Company issued 266,937 (2018 407,602) shares during the period under share option schemes for a consideration of £nil (2018 £nil). In addition, under the terms of the Company's scrip dividend scheme, shareholders are able to elect to receive ordinary shares in place of both interim and final dividends. In the prior period, this resulted in the issue of 5,354,617 new fully paid ordinary shares in relation to the final dividend for the 53 weeks ended 30 September 2017. There were no dividends declared in the current period.

All of the ordinary shares rank equally with respect to voting rights and rights to receive ordinary and special dividends. There are no restrictions on the rights to transfer shares.

Details of options granted under the Group's share schemes, are contained in note 4.6.

Dividends

Declared and paid in the period

There were no dividends declared or paid during the current period. Dividends declared and paid in the prior period are as follows:

	2018		
	Cash dividend £m	Settled via scrip £m	Total dividend £m
Final dividend of 5.0p per share – 53 weeks ended 30 September 2017	7	14	21
	7	14	21

The final dividend of 5.0p per ordinary share declared in relation to the 53 weeks ended 30 September 2017 was approved at the Annual General Meeting on 23 January 2018 and was paid to shareholders on 6 February 2018. Shareholders were able to elect to receive ordinary shares credited as fully paid instead of the cash dividend under the terms of the Company's scrip dividend scheme. Of the £21m final dividend, £14m was in the form of the issue of ordinary shares to shareholders opting in to the scrip alternative. The market value per share at the date of payment was 264.4p per share, resulting in the issue of 5 million new shares, fully paid up from the share premium account. The nominal value of the 5 million shares issued in relation to the final scrip dividends is £1m.

Share premium account

The share premium account represents amounts received in excess of the nominal value of shares on issue of new shares. Share premium of £nil has been recognised on shares issued in the period (2018 £1m).

Capital redemption reserve

The capital redemption reserve movement arose on the repurchase and cancellation by the Company of ordinary shares during prior periods.

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.

Own shares held

Own shares held by the Group represent the shares in the Company held by the employee share trusts.

During the period, the employee share trusts acquired 900,000 shares (2018 nil) and subscribed for 257,587 (2018 296,144) shares at a cost of £3m (2018 £nil) and released 226,936 (2018 159,956) shares to employees on the exercise of options and other share awards for a total consideration of £nil (2018 £nil). The 2,815,781 shares held by the trusts at 28 September 2019 had a market value of £11m (2018 1,885,130 shares held had a market value of £5m).

The Company has established two employee share trusts:

Share Incentive Plan (SIP) Trust

The SIP Trust was established in 2003 to purchase shares on behalf of employees participating in the Company's Share Incentive Plan. Under this scheme, eligible employees are awarded free shares which are normally held in trust for a holding period of at least three years. After five years the shares may be transferred to or sold by the employee free of income tax and National Insurance contributions. The SIP Trust buys the shares in the market or subscribes for newly issued shares with funds provided by the Company. During the holding period, dividends are paid directly to the participating employees. At 28 September 2019, the trustees, Equiniti Share Plan Trustees Limited, held 1,904,568 (2018 1,847,623) shares in the Company. Of these shares, 577,636 (2018 583,410) shares are unconditionally available to employees, 315,333 (2018 245,415) shares have been conditionally awarded to employees, 987,565 (2018 982,143) shares have been awarded to employees but are still required to be held within the SIP Trust and the remaining 24,034 (2018 36,655) shares are unallocated.

Employee Benefit Trust (EBT)

The EBT was established in 2003 in order to satisfy the exercise or vesting of existing and future share options and awards under the Performance Restricted Share Plan, Short Term Deferred Incentive Plan and the Sharesave Plan. The EBT purchases shares in the market or subscribes for newly issued shares, using funds provided by the Company, based on expectations of future requirements. Dividends are waived by the EBT. At 28 September 2019, the trustees, Sanne Fiduciary Services Limited, were holding 911,213 (2018 37,507) shares in the Company.

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.

Translation reserve

The translation reserve is used to record exchange differences arising from the translation of the consolidated financial statements of foreign subsidiaries.

Retained earnings

The Group's main operating subsidiary, Mitchells & Butlers Retail Limited, had retained earnings under FRS 101 of £2,313m at 28 September 2019 (2018 £2,199m). Its ability to distribute these reserves by way of dividends is restricted by the securitisation covenants (see note 4.2).

5.1 RELATED PARTY TRANSACTIONS

Key management personnel

Employees of the Mitchells & Butlers plc Group who are members of the Board of Directors or the Executive Committee of Mitchells & Butlers plc are deemed to be key management personnel. It is the Board who have responsibility for planning, directing and controlling the activities of the Group.

Compensation of key management personnel of the Group:

	2019 52 weeks £m	2018 52 weeks £m
Short-term employee benefits	**5**	4

Movements in share options held by the Directors of Mitchells & Butlers plc are summarised in the Report on Directors' remuneration.

Associate companies

During the period, the Group has held a number of property lease agreements with its associate companies, 3Sixty Restaurants Limited and Fatboy Pub Company Limited.

Since becoming associates of the Group, the Group has entered into the following transactions with the associates:

	3Sixty Restaurants Limited		Fatboy Pub Company Limited	
	2019 52 weeks £000	2018 52 weeks £000	**2019 52 weeks £000**	2018 52 weeks £000
Rent charged	**372**	29	**75**	–
Sales of goods and services	**646**	48	**4**	48
Loans	**–**	–	**175**	–
	1,018	77	**254**	48

The balance due from 3Sixty Restaurants Limited at 28 September 2019 was £102,000 (2018 £35,000).

The balance due from Fatboy Pub Company at 28 September 2019 was £186,000 (2018 £nil).

5.2 SUBSIDIARIES AND ASSOCIATES

Subsidiaries

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation.

Mitchells & Butlers plc is the ultimate controlling party and the beneficial owner of all of the equity share capital, either itself or through subsidiary undertakings, of the following companies:

Name of subsidiary	Country of incorporation	Registration number	Nature of business
Principal operating subsidiaries			
Mitchells & Butlers Retail Limited	England and Wales	00024542	Leisure retailing
Mitchells & Butlers Retail (No. 2) Limited	England and Wales	03959664	Leisure retailing
Ha Ha Bar & Grill Limited	England and Wales	06295359	Leisure retailing
Orchid Pubs & Dining Limited	England and Wales	06754332	Leisure retailing
ALEX Gaststätten Gesellschaft mbH & Co KG	Germany		Leisure retailing
Midco 1 Limited	England and Wales	05835640	Property leasing company
Mitchells & Butlers Leisure Retail Limited	England and Wales	01001181	Service company
Mitchells & Butlers Germany GmbH[a]	Germany		Service company
Mitchells & Butlers Finance plc	England and Wales	04778667	Finance company
Other subsidiaries			
Mitchells & Butlers (Property) Limited[c]	England and Wales	01299745	Property management
Standard Commercial Property Developments Limited[b]	England and Wales	00056525	Property development
Mitchells & Butlers Holdings (No.2) Limited[a,b]	England and Wales	06475790	Holding company
Mitchells & Butlers Holdings Limited[b]	England and Wales	03420338	Holding company
Mitchells & Butlers Leisure Holdings Limited[b]	England and Wales	02608173	Holding company
Mitchells & Butlers Retail Holdings Limited	England and Wales	04887979	Holding company
Old Kentucky Restaurants Limited	England and Wales	00465905	Trademark ownership
Bede Retail Investments Limited	England and Wales	04125272	Dormant
Lastbrew Limited	England and Wales	00075597	Dormant
Mitchells & Butlers (IP) Limited[b]	England and Wales	04885717	Dormant
Mitchells & Butlers Acquisition Company	England and Wales	05879733	Dormant
Mitchells & Butlers Retail Property Limited[a,b]	England and Wales	06301758	Non-trading
Mitchells and Butlers Healthcare Trustee Limited[b]	England and Wales	04659443	Healthcare trustee
Standard Commercial Property Investments Limited	England and Wales	01954096	Dormant
Standard Commercial Property Securities Limited	England and Wales	01689558	Dormant
Temple Circus Developments Limited	England and Wales	06595222	Dormant
ALEX Gaststätten Immobiliengesellschaft mbH	Germany		Property management
ALL BAR ONE Gaststätten Betriebsgesellschaft mbH	Germany		Leisure retailing
ALEX Alsterpavillon Immobilien GmbH & Co KG	Germany		Property management
ALEX Alsterpavillon Management GmbH	Germany		Management company
ALEX Gaststätten Management GmbH	Germany		Management company
PLAN-BAR Gastronomie Einrichtungs GmbH	Germany		Non-trading
Browns Restaurant (Brighton) Limited	England and Wales	01564302	Dormant
Browns Restaurant (Bristol) Limited	England and Wales	02351724	Dormant
Browns Restaurant (Cambridge) Limited	England and Wales	01237917	Dormant
Browns Restaurant (London) Limited	England and Wales	00291996	Dormant
Browns Restaurant (Oxford) Limited	England and Wales	01730727	Dormant
Browns Restaurants Limited	England and Wales	01001320	Dormant
Intertain (Dining) Limited	England and Wales	07035107	Dormant
Lander & Cook Limited	England and Wales	11160005	Dormant

a. Shares held directly by Mitchells & Butlers plc.
b. These companies are exempt from the requirement to prepare individual audited financial statements in respect of the 52 week period ended 28 September 2019 by virtue of sections 479A and 479C of the Companies Act 2006.

All companies registered in England and Wales operate within the United Kingdom. The registered office for these companies is 27 Fleet Street, Birmingham, B3 1JP.

All companies registered in Germany operate solely within Germany. The registered office for these companies is Adolfstrasse 16, 65185 Wiesbaden.

Associates

Details of the Company's associates, held indirectly, are as follows. Shares in these associates were acquired in the prior period.

Name of associate	Registered office	Country of incorporation and operation	Country of operation	Nature of business	Proportion of ownership interest %	Proportion of voting power interest %
3Sixty Restaurants Limited	1st Floor St Georges House, St Georges Road, Bolton, BL1 2DD	England and Wales	United Kingdom	Leisure retailing	40	40
Fatboy Pub Company Limited	Ampney House, Falcon Close, Quedgeley, Gloucester, GL2 4LS	England and Wales	United Kingdom	Leisure retailing	25	25

5.3 FIVE YEAR REVIEW

	2019 52 weeks £m	2018 52 weeks £m	2017 53 weeks £m	2016 52 weeks £m	2015 52 weeks £m
Revenue	**2,237**	2,152	2,180	2,086	2,101
Operating profit before adjusted items	**317**	303	314	318	328
Adjusted items	**(20)**	(48)	(106)	(87)	(58)
Operating profit	**297**	255	208	231	270
Finance costs	**(114)**	(119)	(125)	(126)	(130)
Finance revenue	**1**	1	1	1	1
Net pensions finance charge	**(7)**	(7)	(7)	(12)	(15)
Profit before taxation	**177**	130	77	94	126
Tax expense	**(34)**	(26)	(14)	(5)	(23)
Profit for the period	**143**	104	63	89	103
Earnings per share					
Basic	**33.5p**	24.5p	15.1p	21.6p	25.0p
Diluted	**33.3p**	24.4p	15.0p	21.6p	24.9p
Adjusted (Basic)[a]	**37.2p**	34.1p	34.9p	34.9p	35.7p

a. Adjusted earnings per share is stated after removing the impact of adjusted items as explained in note 2.2.

COMPANY BALANCE SHEET
28 SEPTEMBER 2019

	Notes	2019 £m	2018 £m
Non-current assets			
Investments in subsidiaries	5	**1,474**	1,474
Deferred tax asset	9	**41**	48
		1,515	1,522
Current assets			
Trade and other receivables	6	**673**	739
Cash and cash equivalents		**36**	14
		709	753
Current liabilities			
Pension liabilities	4	**(50)**	(49)
Borrowings	8	**(8)**	(28)
Trade and other payables	7	**(284)**	(288)
		(342)	(365)
Non-current liabilities			
Pension liabilities	4	**(165)**	(200)
Net assets		**1,717**	1,710
Equity			
Called up share capital	10	**37**	37
Share premium account		**26**	26
Capital redemption reserve		**3**	3
Own shares held		**(4)**	(1)
Retained earnings		**1,655**	1,645
Total equity		**1,717**	1,710

The Company reported a loss for the 52 weeks ended 28 September 2019 of £6m (52 weeks ended 29 September 2018 profit of £89m).

The Company financial statements were approved by the Board and authorised for issue on 19 November 2019.

They were signed on its behalf by:

TIM JONES
Chief Financial Officer

The accounting policies and the notes on pages 153 to 155 form an integral part of these Company financial statements.

Registered Number: 04551498

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE 52 WEEKS ENDED 28 SEPTEMBER 2019

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares held £m	Retained earnings £m	Total equity £m
At 30 September 2017	36	26	3	(1)	1,556	1,620
Profit after taxation	–	–	–	–	89	89
Remeasurement of pension liability	–	–	–	–	5	5
Deferred tax on remeasurement of pension liability	–	–	–	–	(1)	(1)
Total comprehensive income	–	–	–	–	93	93
Share capital issued	–	1	–	–	–	1
Credit in respect of employee share schemes	–	–	–	–	3	3
Dividends paid	–	–	–	–	(7)	(7)
Scrip dividend related share issue	1	(1)	–	–	–	–
At 29 September 2018	37	26	3	(1)	1,645	1,710
Loss after taxation	–	–	–	–	(6)	(6)
Remeasurement of pension liability	–	–	–	–	15	15
Deferred tax on remeasurement of pension liability	–	–	–	–	(3)	(3)
Total comprehensive income	–	–	–	–	6	6
Purchase of own shares	–	–	–	(3)	–	(3)
Credit in respect of employee share schemes	–	–	–	–	3	3
Tax on share-based payments	–	–	–	–	1	1
At 28 September 2019	**37**	**26**	**3**	**(4)**	**1,655**	**1,717**

The retained earnings account is wholly distributable after the deduction for own shares held.

1. BASIS OF PREPARATION

Basis of accounting

These Company financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' as issued by the FRC.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements.

The Company financial statements have been prepared under the historical cost convention. The Company's accounting policies have been applied on a consistent basis to those set out in the relevant notes to the consolidated financial statements. In the current period, the Company has applied a number of amendments to IFRS Standards issued by the International Accounting Standards Board (the Board) that are mandatorily effective for an accounting period that begins on or after 1 January 2018, as described in section 1 of the consolidated financial statements. Other than IFRS 9 Financial Instruments, their adoption has not had any material impact on the disclosures or on the amounts reported in these Company financial statements.

Impact of initial application of IFRS 9 Financial Instruments

(a) Classification and measurement of financial instruments

The Directors of the Company reviewed and assessed the Company's existing financial instruments as at 30 September 2018, based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had no impact on the Company's financial instruments as regards their classification and measurement. Details on the expected credit loss and impact on loss allowances are provided in (b) below.

(b) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

In particular, IFRS 9 requires the Company to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Company is required to measure the loss allowance for that financial instrument at an amount equal to 12-months' ECL. IFRS 9 also provides a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables in certain circumstances.

The Company has a trade and other receivables balance that relates to amounts owed by subsidiary undertakings (see note 6). The Directors have reviewed these balances and calculated that there is no expected credit loss for any of the individual balances at 29 September 2018. As such there has been no impact on the Company financial statements and therefore no prior year restatement required.

Critical accounting judgements and key sources of estimation uncertainty

The critical judgements and estimates of the Company are considered alongside those of the Group. The key critical judgement of the Company is related to the selection of the discount rate and inflation rate assumptions used in the calculation of the defined benefit pension liability described in note 4.5 of the consolidated financial statements. There are no key sources of estimation uncertainty in the current period.

Foreign currencies

Transactions in foreign currencies are recorded at the exchange rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the relevant rates of exchange ruling at the balance sheet date.

2. PROFIT AND LOSS ACCOUNT

Profit and loss account

The Company has not presented its own profit and loss account, as permitted by Section 408 of the Companies Act 2006.

The Company recorded a loss after tax of £6m (2018 profit of £89m), less dividends of £nil (2018 £7m). Dividends are disclosed in note 4.7 of the consolidated financial statements.

Audit remuneration

Auditor's remuneration for audit services to the Company was £30,000 (2018 £22,000). This is borne by another Group company, as are any other costs relating to non-audit services (see note 2.3 to the consolidated financial statements).

3. EMPLOYEES AND DIRECTORS

	2019 52 weeks	2018 52 weeks
Average number of employees, including part-time employees	**2**	2

Employees of Mitchells & Butlers plc consist of Executive Directors who are considered to be the key management personnel of the Company.

Details of employee benefits and post-employment benefits, including share-based payments are included within the Report on Directors' remuneration on pages 76 to 97. The charge recognised for share-based payments in the period is £1m (2018 £nil).

4. PENSIONS

Accounting policy
The accounting policy for pensions is disclosed in the consolidated financial statements in note 4.5.

Pension liability
At 28 September 2019 the Company's pension liability was £215m (2018 £249m). Of this amount, £50m (2018 £49m) is a current liability and £165m (2018 £200m) is a non-current liability.

The Company is the sponsoring employer of the Group's pension plans. Information concerning the pension scheme arrangements operated by the Company and associated current and future contributions is contained within note 4.5 to the consolidated financial statements on pages 141 to 144.

The pension amounts and disclosures included in note 4.5 to the consolidated financial statements are equivalent to those applicable for the Company.

5. INVESTMENTS IN SUBSIDIARIES

Accounting policy
The Company's investments in Group undertakings are held at cost less provision for impairment, except for those amounts designated as being in a fair value hedge.

	Investments in subsidiary undertakings £m
Cost	
At 30 September 2017	3,353
Additions	–
At 29 September 2018	3,353
Additions	–
At 28 September 2019	**3,353**
Provision	
At 30 September 2017	1,879
Impairment	–
At 29 September 2018	1,879
Impairment	–
At 28 September 2019	**1,879**
Net book value	
At 28 September 2019	**1,474**
At 29 September 2018	1,474
At 30 September 2017	1,474

Mitchells & Butlers plc is the beneficial owner of all of the equity share capital of companies within the Group, either itself or through subsidiary undertakings. In addition, the Company has indirect investments in associate companies through subsidiary undertakings. See note 5.2 of the consolidated financial statements for a full list of subsidiaries and associates.

Investments have been tested for impairment using forecast cash flows, discounted by applying a pre-tax discount rate of 7.3% (2018 7.7%). For the purposes of the calculation of the recoverable amount, the cash flow projections include 0.0% (2018 0.0%) of growth per annum.

6. TRADE AND OTHER RECEIVABLES

	2019 £m	2018 £m
Amounts owed by subsidiary undertakings[a]	**673**	739

a. Amounts owed by 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 amounts owed by subsidiary undertakings approximately equates to their fair value. An assessment of the lifetime ECL has now been performed with £nil recognised at the period end.

7. TRADE AND OTHER PAYABLES

	2019 £m	2018 £m
Amounts owed to subsidiary undertakings[a]	**282**	283
Accrued charges	**2**	4
Other payables	**–**	1
	284	288

a. Amounts owed to 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.

8. BORROWINGS

Accounting policy
The accounting policy for borrowings is disclosed in the consolidated financial statements in note 4.2.

Borrowings can be analysed as follows:

	2019 £m	2018 £m
Current		
Bank overdraft	**8**	28
Total borrowings	**8**	28

Unsecured revolving credit facility
The Company holds uncommitted credit facilities of £15m. The amount drawn at 28 September 2019 is £nil (2018 £nil).

9. TAXATION

Accounting policy
The accounting policy for taxation is disclosed in the consolidated financial statements in note 2.4.

Deferred tax asset
Movements in the deferred tax asset can be analysed as follows:

	£m
At 30 September 2017	56
Charged to income statement – pensions	(6)
Charged to income statement – tax losses	(1)
Credited to other comprehensive income – pensions	(1)
At 29 September 2018	48
Charged to income statement – pensions	(4)
Charged to income statement – tax losses	(1)
Charged to other comprehensive income – pensions	(3)
Credited to equity – share based payments	1
At 28 September 2019	**41**

Analysed as tax timing differences related to:

	2019 £m	2018 £m
Pensions	**36**	43
Tax losses[a]	**4**	5
Share based payments	**1**	–
	41	48

a. Tax losses arising in 2008 which are now recoverable by offset against other income.

Further information on the changes to tax legislation are provided in note 2.4 to the consolidated financial statements.

10. EQUITY

Called up share capital
Details of the amount and nominal value of allotted, called up and fully paid share capital are contained in note 4.7 to the consolidated financial statements.

Dividends
Details of the dividends declared and paid by the Company are contained in note 4.7 to the consolidated financial statements.