REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

1. Opinion

In our opinion:

- the financial statements of Mitchells & Butlers plc (the 'parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent Company's affairs as at 26 September 2020 and of the Group's loss 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 parent 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 parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. 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 parent 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. The non-audit services provided to the Group and parent Company are disclosed in Note 2.3 to the financial statements. 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.

3. Material uncertainty relating to going concern

We draw attention to note 1 in the financial statements, which indicates that a material uncertainty exists that may cast significant doubt on the Group and parent Company's ability to continue as a going concern.

The primary source of borrowing for the Group is secured loan notes of £1.6bn at 26 September 2020 (2019 £1.8bn), secured on the majority of the properties owned by the Group as at 26 September 2020, the Group had cash and cash equivalents of £158m, and undrawn committed unsecured facilities of £140m. The existing £150m of revolving credit facilities (RCF) was renegotiated and extended to 31 December 2021 with associated covenants being re-negotiated to reflect new post-Covid trading.

There are covenants attached to both the secured loan notes and the unsecured revolving credit facilities. As part of the revised arrangements noted above it was agreed to waive the six month look-back debt service coverage ratio test up until July 2021 and the 12 month look-back debt service coverage ratio test up until September 2021. The covenants are tested quarterly, are based around the Group's net worth, debt service, and restricted payment conditions. Consequently, it is most sensitive to the macroeconomic recovery and performance of the Group over the short term trading period.

Management has performed a reverse stress test on the forecast and identified that a further average decline in sales of 4% or more from in the first six months of the year in combination with factoring in some additional tariffs from Brexit would result in a breach in covenants within the going concern period. Management has determined that the decline noted in the reverse stress test is reasonably plausible and we concur with this assessment. A breach in covenants would lead to the need for the Group to negotiate further waivers or renegotiate its borrowing facilities, which the Group have been successful in doing historically.

The Audit Committee has included the adoption of the going concern basis of accounting as a key risk on page 72.

In response to this, we:

- used specialists to perform testing on the mechanical accuracy of the model used to prepare the Group's cash flow forecast;
- considered the consistency of management's forecasts with other areas of the audit, including the right of use asset impairment review and revaluation of freehold and long leasehold properties (including consideration of management's experts view of the likely recovery);
- challenged the key assumptions within the going concern assessment including the key assumptions in the performance over the festive period and sales recovery trajectory. We have challenged with reference to the historical trading performance, current trading uncertainty, market expectations, Government announcements and peer comparison;
- obtained an understanding of the financing facilities available to the Group, which involved the use of restructuring specialists and included understanding repayment terms and covenant definitions;
- assessed the impact of reverse stress testing on the Group's funding position and covenant calculations, including the appropriateness of coronavirus and Brexit assumptions;
- assessed and challenged the mitigating actions available to management, should these be required to offset the impact of the forecast performance not being achieved;
- assessed the appropriateness of risk factors disclosed in the Group's going concern statement and the financial impact of those risk factors; and
- challenged the sufficiency of the Group's disclosures over the going concern basis and material uncertainties arising.

As stated in note 1, these events or conditions, along with the matters as set forth in note 1 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Group's and the parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

4. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Going concern (see material uncertainty relating to going concern section); • Valuation of freehold and long leasehold property; • Impairment of short leasehold properties and fixtures and fittings; • Presentation of separately disclosed items; and • Government assistance – furlough income. Within this report, key audit matters are identified as follows: N Newly identified I Increased level of risk S Similar level of risk D Decreased level of risk
Materiality	The materiality that we used for the Group financial statements was £5.9m which was determined on the basis of 0.4% of revenue. Given the volatility in performance during the year, Group revenue was considered the most appropriate performance measure on which to base materiality.
Scoping	A full scope audit has been performed in respect of the UK business, consistent with 2019.
Significant changes in our approach	We have revised the basis of materiality in the current year. Further details are provided in section 7 below. We have devised our strategy to respond to the risks within the hospitality sector and the impact of Coronavirus on the Group's future trading performance. As a result, we have elevated and extended the risk assessment associated with certain balances and judgement areas since the FY 2019 audit as set out below: • going concern (see material uncertainty relating to going concern section); • presentation of separately disclosed items is a new key area of focus particularly in light of the coronavirus pandemic and the potential for management to attribute exceptional items to the pandemic which are difficult to quantify and could be misleading; and • Government assistance has had a material impact on the Group's income statement and a key audit matter has been identified relating to the appropriateness of the furlough claims under the Government's Coronavirus Job Retention Scheme. In the prior year we identified compliance with debt covenants as a key audit matter. This has been included as part of the key audit matter in respect of going concern for FY 2020. Also, following the implementation of IFRS 16, the onerous lease key audit matter previously reported is now covered by the key audit matter in respect of impairment of short leasehold properties and fixtures and fittings.

5. Conclusions relating to 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 33 to 38 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on page 32 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 39 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 going concern and the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Viability means the ability of the Group to continue over the time horizon considered appropriate by the directors.

We highlight the impact on the viability of the business over the viability period of the matters disclosed in the material uncertainty relating to going concern section.

This matter has been considered by the Directors in their assessment of the viability of the business over the viability period in their viability statement on page 39.

6. 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. In addition to the matter described in the material uncertainty relating to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
6.1 Valuation of freehold and long leasehold property S		
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 26 September 2020 is £4.1bn (2019 £4.5bn). The revaluation exercise performed in the year has resulted in an additional impairment of £43m and a decrease in revaluation reserves of £148m. 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. New for 2020 is an additional income shortfall deduction to reflect that post Covid-19 trading results may not return to historic levels in the short term (assessed as being during FY 2021). 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 (invested sites) 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 (2019 three periods) have been reviewed for impairment. For invested sites during FY 2020 the valuation is capped at the previous valuation or cost. Whilst we note the increased estimation uncertainty, as detailed in Note 3.1, in applying the Royal Institute of Chartered Surveyors Valuation Global Standards 2020 ("Red Book"), the Group's external advisor has declared a 'material valuation uncertainty' in their valuation report on the portfolio as at 26 September 2020. This is on the basis that, as at the valuation date, there is an unprecedented set of circumstances caused by the coronavirus pandemic and an absence of relevant market experience on which to base judgements. In respect of these valuations, the valuers note that less certainty and a higher degree of caution should be attached to their valuation. Refer to note 3.1 for the Group's accounting policies and the key assumptions used, as well as the significant issues section of the Audit Committee report on page 72.	We worked with our property valuation specialists and management's external advisors to challenge the methodology and underlying assumptions used in the freehold and long leasehold pub valuation. This included: • challenging management's external advisor on the appropriateness of the fair maintainable trade value used against Red Book guidance; • confirming that the FY 2021 site level forecasts reconciled to both Board approved budgets and the forecasts used within the impairment models; • challenging management's external advisor on the appropriateness of applying an income shortfall deduction, by reference to market practice, as well as the methodology to calculate it; • challenging for the invested sites that the cap referred to above is appropriate by reference to likely future performance indicators; • evaluating the completeness of the allocation of central overheads to site level earnings in determining fair maintainable trade; • challenging the appropriateness of the reduction in the overall valuation relating to tenants' fixtures and fittings by reference to market value; • reperforming management's process for identifying sites requiring a spot valuation to assess the completeness of spot valuations; • validating a sample of spot valuations to assess the accuracy of the valuation; and • assessing the appropriateness of the disclosures in the financial statements. 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, multiples and the income shortfall deduction; and • the completeness of spot valuations.	While we note the increased estimation uncertainty, from the work performed, we are in agreement with the methodology chosen and the assumptions adopted to revalue the freehold and long leasehold properties and 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
6.2 Impairment of short leasehold properties and fixtures and fittings S		
Under IFRS, the Group is required to complete an impairment review of short leasehold properties and fixtures and fittings where there are indicators of impairment. A £43m impairment has been recognised during the year. The net book value of the IFRS 16 right of use assets and fixtures and fittings as at 26 September 2020 was £466m. This is after the recording of an impairment charge of £65m on Day 1 of recognising the right of use assets. Onerous lease provisions, which have been identified as a key audit matter in previous years have now been superseded by the adoption of IFRS 16 'Leases' and therefore rental and other costs are now accounted for separately under IFRS 16. The short leasehold properties and fixtures and fittings impairment review involves management making several estimates to determine the Value In Use of the cash generating units (CGUs) (being the net present value of the forecast cash flows). This is then compared to the book value of each CGU's assets (including the right of use asset), to identify whether any impairment is required. In making this assessment, management determines each site to be a CGU. The key audit matter relates to the appropriateness of management's estimate of future trading performance of the sites, which is used to derive Value In Use. Value In Use is calculated from cash flow projections and relies upon management's assumptions and estimates of future trading performance, allocation of direct costs and overheads, long-term growth rates and discount rates. This is particularly challenging in light of the significant impact of Coronavirus and uncertainty over the pace and extent of recovery of the Group and the wider economy as the lockdown restrictions and associated site closures are eased. The impairment model is complex and is prepared using Excel spreadsheets which increases the scope for error. The impairment model utilises the forecasts included in the Board's three year plan, which covers the periods up to September 2023. Assumptions beyond this period assume no growth and that leases will not be renewed on expiry. The cash flows are discounted using a discount rate. As set out in note 3.1, the model is highly sensitive to changes in forecast performance, most notably sales. The forecasts are prepared on a top down basis and not at an individual site level. For the purpose of the impairment review, an exercise has therefore been performed to allocate the forecast performance across the individual sites. The key assumption in forecast site performance is a stabilisation of the like-for-like sales decline experienced in FY 2020, and forecasted to continue into the first half of FY 2021, then stabilising and gradually returning to pre-Covid level sales achieved from the latter part of FY 2021 and returning the Group to FY 2019 profitability over the medium/longer term. Refer to note 3.1 for the Group's impairment accounting policies and the key assumptions used in the impairment assessment, as well as the significant issues section of the Audit Committee report on page 72.	Our audit procedures included: • assessing the methodology applied in performing the impairment review with reference to the requirements of IAS 36 'Impairment of Assets'; • determining whether management had appropriately modelled the impact of IFRS 16 when considering the cash flows within the impairment model; • assessing management's process of allocating the top-down medium term plan to the individual site impairment review and challenging the judgements applied by analysing both historic site performance data and performing a search for contradictory evidence; • challenging the key assumptions utilised in the cash flow forecasts including reference to the historical trading performance, market expectations, and peer comparison; • challenging the allocation of direct and other costs to sites by assessing the individual costs against the criteria within IAS 36; • assessing the continually evolving impact of Coronavirus, the changing nature of Government announcements and the restrictions placed on trading as to what should be considered at the balance sheet date and what was a non-adjusting post balance sheet event; • assessing the long term growth rates and discount rates applied to the site cash flows by comparing the rates used to third party evidence. In relation to the discount rate, we have compared the rates used to our independently estimated discount rates determined by our internal valuations team; • engaging our specialist modelling team to assist in auditing the integrity of the Excel model; • assessing management's sensitivity analysis in relation to the key assumptions used in the cash flow forecasts; and • evaluating the adequacy of the Group's disclosures regarding impairment of short leasehold properties and fixtures and fittings in note 3.1 of the financial statements. Additionally, we tested controls in relation to the key controls around the impairment review, including the completeness and accuracy of the key inputs.	As set out, the short leasehold properties and fixtures and fittings impairment has required significant management judgement. In particular, it requires estimation of forecast performance in the context of a challenging retail sector where the long term impact of coronavirus on customer confidence and demand is not yet known. The impairment provision is underpinned by the assumption the decline in like for like sales returns to pre-Covid level sales, albeit slightly lower, from the second half of the financial year. From the work performed, we are satisfied with the integrity of management's model and have concluded that the level of impairment recognised on the short leasehold properties and fixtures and fittings is appropriate. Given the uncertainties noted, the disclosure sensitivities in note 3.1 provide important information to assess the impact of a change in key assumptions.

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
6.3 Presentation of separately disclosed items N		
Separately disclosed items total £91m (2019 £21m) and include: • costs associated with Covid-19 of £11m (2019 £nil); • impairment arising from property revaluations of £43m (2019 £4m); • impairment of freehold and long leasehold tenants' fixtures and fittings of £10m (2019 £nil); • impairment of short leasehold and unlicensed properties of £7m (2019 £5m); • impairment of IFRS 16 right-of-use assets of £33m (2019 £nil) and • HMRC VAT refund of £13m (2019 £nil). Each item has been presented as a separately disclosed item due to its size, nature and incidence. Further details are included in Note 2.2 of the financial statements. The appropriateness of the presentation of items excluded from underlying trading performance is a key area of focus particularly in light of the coronavirus pandemic and the potential for management to attribute exceptional items to the pandemic which are difficult to quantify and could be misleading. Refer to note 2.2 for the Group's accounting policy, as well as the significant issues section of the Audit Committee report on page 72.	We carried out the following audit procedures in assessing the presentation of separately disclosed items: • obtaining an understanding of controls around the Group's classification of separately disclosed items; • agreeing a sample of separately disclosed items to supporting evidence; • evaluating the presentation of separately disclosed items, both individually and in aggregate, considering the Group's definition of separately disclosed items, IAS 1 and latest guidance from the FRC and the European Securities and Markets Authority, specifically considering recent guidance in light of the coronavirus pandemic; • assessing management's application of the policy on separately disclosed items for consistency with previous accounting periods; and • assessing whether the disclosures in the financial statements provide sufficient detail for the reader to understand the nature of these items.	From the work performed, we concluded that the presentation of separately disclosed items is appropriate.
6.4 Government assistance – furlough income N		
During the period under audit the Group has taken advantage of a number of Government support schemes put in place during the Covid-19 pandemic. Certain restrictions on the application of this funding apply whereby HRMC has the right to audit compliance for a period of up to six years after the furlough period. There is the risk of significant reputational damage as well as financial consequences, if scheme rules are not complied with. Given the complexity of the Coronavirus Job Retention Schemes (CJRS) and the associated calculations, the pace at which they were introduced and the amount of income received, £165m (2019 £nil), we have identified a key audit matter over the recognition of CJRS income. Refer to note 2.3 for the Group's accounting policy.	We worked with our internal employee tax specialists as well as management's external advisors to challenge the appropriateness of the CJRS income. Our audit procedures included: • assessing the completeness of the advisory report prepared by management's external advisors on the calculation of the initial CJRS claim; • developing an independent expectation for the total CJRS claim value up to 26 September 2020; • re-performing the claim value for a sample of employees including an assessment of whether the correct reference pay was used within the calculations and that the rules were applied appropriately based on information available at the time; • agreeing the total CJRS grant income of £165m to bank statements and subsequent correspondence with HMRC; and • assessing whether the disclosures within the financial statements provide sufficient detail to understand the nature of this item. Additionally, we tested controls in relation to the recognition of CJRS income. The controls tested covered: • management's review of the CJRS claims spreadsheet for accuracy of the data compared to the payroll system; and • management's review of the CJRS claims spreadsheet for compliance against the HMRC CJRS scheme rules.	From the work performed, we are satisfied that CJRS income has been appropriately recognised.

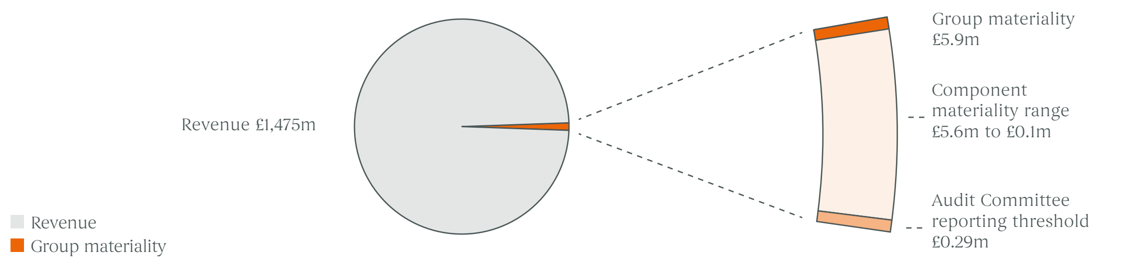
7. Our application of materiality

7.1 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	Parent Company financial statements
Materiality	£5.9m (2019 £9.65m)	£5.6m (2019 £9.3m)
Basis for determining materiality	0.4% of revenue. (2019 5% of profit before tax before separately disclosed items).	Parent Company materiality equates to 0.3% of net assets (2019 0.5%), which is capped at 95% of Group materiality (2019 96%).
Rationale for the benchmark applied	In our professional judgement we believe that revenue is the most appropriate benchmark to determine materiality given the volatility in performance during the year. For comparison, 2019 materiality represents 0.4% of FY 2019 revenue.	The parent Company does not trade so materiality has been determined using net assets.



7.1 Performance materiality

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 2020 audit (2019 70%). In determining performance materiality, we considered the following factors:

- 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 (see section 8.2); and
- our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

7.2 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £294,750 (2019 £465,000), 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.

8. An overview of the scope of our audit

8.1 Identification and scoping of components

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 95% (2019 96%) of revenue, 99% (2019 96%) of loss (2019 profit) before tax and 99% (2019 99%) of the Group's net assets. 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 2019. At the parent entity level we also tested the consolidation process, as well as the Company balances 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 £5.6m (2019 £0.1m to £9.3m).

	Full audit scope	Review at Group level
Revenue	95%	5%
Profit before tax	96%	4%
Net assets	99%	1%

8.2 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.

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 and the valuation of the freehold and leasehold property.

9. 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.

10. 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 parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

11. 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 and non-compliance with laws and regulations 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.

12. 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.

12.1 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, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, in-house legal counsel including the Company secretary and General Counsel, and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their 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 of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, valuations, pensions, IT, financial instruments, and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas:

- valuation of freehold and long leasehold property;
- impairment of short leasehold properties and fixtures and fittings;
- presentation of separately disclosed items
- Government assistance – furlough income

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included data protection regulations, licensing regulations, occupational health and safety regulations, responsible drinking regulations, planning and building legislation and employment legislation.

12.2 Audit response to risks identified
As a result of performing the above, we identified valuation of freehold and long leasehold property, impairment of short leasehold properties and fixtures and fittings, presentation of separately disclosed items, government assistance – furlough income, as key audit matters related to the potential risk of fraud. 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 provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- 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 internal audit reports and reviewing correspondence with HMRC; 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

13. 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 the parent 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.

14. Matters on which we are required to report by exception

14.1 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 parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2 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.

15. Other matters

15.1 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 ten years, covering the financial years ending 24 September 2011 to 26 September 2020.

15.2 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).

16. 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

25 November 2020

GROUP INCOME STATEMENT

For the 52 weeks ended 26 September 2020

		2020 52 weeks			2019 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	**1,475**	**–**	**1,475**	2,237	–	2,237
Operating costs before depreciation, amortisation and movements in the valuation of the property portfolio	2.2, 2.3	**(1,221)**	**2**	**(1,219)**	(1,801)	(19)	(1,820)
Share in associates results	3.6	**(1)**	**–**	**(1)**	–	–	–
Net profit arising on property disposals	2.2, 2.3	**–**	**–**	**–**	–	1	1
EBITDA[b] before movements in the valuation of the property portfolio		**253**	**2**	**255**	436	(18)	418
Depreciation, amortisation and movements in the valuation of the property portfolio	2.2, 2.3	**(154)**	**(93)**	**(247)**	(119)	(2)	(121)
Operating profit		**99**	**(91)**	**8**	317	(20)	297
Finance costs	4.3	**(128)**	**–**	**(128)**	(114)	–	(114)
Finance income	4.3	**1**	**–**	**1**	1	–	1
Net pensions finance charge	4.3, 4.5	**(4)**	**–**	**(4)**	(7)	–	(7)
(Loss)/profit before tax		**(32)**	**(91)**	**(123)**	197	(20)	177
Tax credit/(charge)	2.2, 2.4	**5**	**6**	**11**	(38)	4	(34)
(Loss)/profit for the period		**(27)**	**(85)**	**(112)**	159	(16)	143
(Loss)/earnings per ordinary share							
– Basic	2.5	**(6.3)p**		**(26.2)p**	37.2p		33.5p
– Diluted	2.5	**(6.3)p**		**(26.1)p**	37.1p		33.3p

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 104 to 154 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 26 September 2020

	Notes	**2020 52 weeks £m**	2019 52 weeks £m
(Loss)/profit for the period		**(112)**	143
Items that will not be reclassified subsequently to profit or loss:			
Unrealised (loss)/gain on revaluation of the property portfolio	3.1	**(148)**	84
Remeasurement of pension liability	4.5	**3**	15
Tax relating to items not reclassified	2.4	**1**	(18)
		(144)	81
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges:			
– Losses arising during the period	4.4	**(43)**	(81)
– Reclassification adjustments for items included in profit or loss	4.4	**48**	23
Tax relating to items that may be reclassified	2.4	**5**	10
		10	(48)
Other comprehensive (expense)/income after tax		**(134)**	33
Total comprehensive (expense)/income for the period		**(246)**	176

The notes on pages 104 to 154 form an integral part of these consolidated financial statements.

GROUP BALANCE SHEET
26 September 2020

	Notes	2020 £m	2019 £m
Assets			
Goodwill and other intangible assets	3.5	**14**	14
Property, plant and equipment	3.1	**4,305**	4,528
Lease premiums		**–**	1
Right-of-use assets[a]	3.2	**402**	–
Interests in associates	3.6	**4**	5
Finance lease receivables[a]	3.2	**15**	–
Deferred tax asset[a]	2.4	**85**	66
Derivative financial instruments	4.4	**45**	53
Total non-current assets		**4,870**	4,667
Inventories	3.3	**22**	26
Trade and other receivables[a]	3.3	**41**	63
Current tax asset		**1**	–
Finance lease receivables[a]	3.2	**2**	–
Cash and cash equivalents	4.1	**173**	133
Derivative financial instruments	4.4	**–**	3
Total current assets		**239**	225
Total assets		**5,109**	4,892
Liabilities			
Pension liabilities	4.5	**(51)**	(50)
Trade and other payables[a]	3.3	**(314)**	(327)
Current tax liabilities		**–**	(12)
Borrowings	4.2	**(238)**	(95)
Lease liabilities[a]	3.2	**(58)**	–
Derivative financial instruments	4.4	**(40)**	(36)
Total current liabilities		**(701)**	(520)
Pension liabilities	4.5	**(142)**	(165)
Borrowings	4.2	**(1,542)**	(1,657)
Lease liabilities[a]	3.2	**(483)**	–
Derivative financial instruments	4.4	**(257)**	(266)
Deferred tax liabilities	2.4	**(302)**	(301)
Provisions[a]	3.4	**(5)**	(36)
Total non-current liabilities		**(2,731)**	(2,425)
Total liabilities		**(3,432)**	(2,945)
Net assets		**1,677**	1,947
Equity			
Called up share capital	4.7	**37**	37
Share premium account	4.7	**28**	26
Capital redemption reserve	4.7	**3**	3
Revaluation reserve	4.7	**1,117**	1,267
Own shares held	4.7	**(3)**	(4)
Hedging reserve	4.7	**(240)**	(250)
Translation reserve	4.7	**14**	14
Retained earnings[a]		**721**	854
Total equity		**1,677**	1,947

a. At the start of the period, the Group has adopted IFRS 16 which requires lease liabilities and corresponding right-of-use assets to be recognised on the balance sheet. The Group has adopted IFRS 16 using the modified retrospective approach and as a result, prior period comparatives have not been restated. See notes 1 and 5.3 for details of the transitional impact.

The notes on pages 104 to 154 form an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the Board and authorised for issue on 25 November 2020.

They were signed on its behalf by:

TIM JONES
Chief Financial Officer

GROUP STATEMENT OF CHANGES IN EQUITY

For the 52 weeks ended 26 September 2020

	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 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
IFRS 16 transition[a]	–	–	–	–	–	–	–	(24)	(24)
At 29 September 2019	37	26	3	1,267	(4)	(250)	14	830	1,923
(Loss)/profit for the period	–	–	–	–	–	–	–	(112)	(112)
Other comprehensive income/(expense)	–	–	–	(150)	–	10	–	6	(134)
Total comprehensive income/ (expense)	–	–	–	(150)	–	10	–	(106)	(246)
Share capital issued	–	2	–	–	–	–	–	–	2
Purchase of own shares	–	–	–	–	(2)	–	–	–	(2)
Release of own shares	–	–	–	–	3	–	–	(3)	–
Credit in respect of share-based payments	–	–	–	–	–	–	–	2	2
Tax on share-based payments	–	–	–	–	–	–	–	(2)	(2)
At 26 September 2020	**37**	**28**	**3**	**1,117**	**(3)**	**(240)**	**14**	**721**	**1,677**

a. At the start of the period, the Group has adopted IFRS 16 which requires lease liabilities and corresponding right-of-use assets to be recognised on the balance sheet. The Group has adopted IFRS 16 using the modified retrospective approach and as a result, prior period comparatives have not been restated. See notes 1 and 5.3 for details of the transitional impact.

GROUP CASH FLOW STATEMENT

For the 52 weeks ended 26 September 2020

	Notes	2020 52 weeks £m	2019 52 weeks £m
Cash flow from operations			
Operating profit		**8**	297
Add back/(deduct):			
Movement in the valuation of the property portfolio	2.2	**93**	2
Net profit arising on property disposals	2.2	**–**	(1)
Past service cost in relation to the defined benefit pension obligation	2.2	**–**	19
Depreciation of property, plant and equipment	2.3	**110**	116
Amortisation of intangibles	2.3	**3**	3
Depreciation of right-of-use assets	2.3	**41**	–
Cost charged in respect of share-based payments	4.6	**2**	3
Administrative pension costs	4.5	**2**	3
Share of associates results		**1**	–
Operating cash flow before movements in working capital and additional pension contributions		**260**	442
Decrease in inventories		**4**	–
Decrease/(increase) in trade and other receivables		**9**	(9)
Increase in trade and other payables		**6**	25
Decrease/(increase) in provisions		**1**	(7)
Additional pension contributions	4.5	**(25)**	(49)
Cash flow from operations		**255**	402
Interest paid		**(109)**	(113)
Other interest paid – lease liabilities[a]	4.1	**(8)**	–
Borrowing facility fees paid		**(1)**	–
Interest received		**1**	2
Tax paid		**(11)**	(25)
Net cash from operating activities		**127**	266
Investing activities			
Purchases of property, plant and equipment		**(104)**	(147)
Purchases of intangible assets		**(4)**	(5)
Proceeds from sale of property, plant and equipment		**2**	14
Finance lease principal repayments received		**2**	–
Transfers from other cash deposits		**–**	120
Net cash used in investing activities		**(104)**	(18)
Financing activities			
Issue of ordinary share capital		**2**	–
Purchase of own shares		**(3)**	(3)
Repayment of principal in respect of securitised debt	4.1	**(95)**	(87)
Repayment of liquidity facility	4.1	**–**	(147)
Drawings under liquidity facility	4.1	**9**	–
Drawings under term loan	4.1	**100**	–
Cash payments for the principal portion of lease liabilities[a]	4.1	**(22)**	–
Drawdown of unsecured revolving credit facilities	4.1	**10**	–
Net cash used in financing activities		**1**	(237)
Net increase in cash and cash equivalents		**24**	11
Cash and cash equivalents at the beginning of the period	4.1	**133**	122
Foreign exchange movements on cash		**1**	–
Cash and cash equivalents at the end of the period	4.1	**158**	133

a. At the start of the period, the Group has adopted IFRS 16 which requires lease liabilities and corresponding right-of-use assets to be recognised on the balance sheet. The Group has adopted IFRS 16 using the modified retrospective approach and, as a result, prior period comparatives have not been restated. See notes 1 and 5.3 for details of the transitional impact.

The notes on pages 104 to 154 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 151.

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 8 to 44.

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 26 September 2020 and the comparative period ended 28 September 2019 both include 52 trading weeks.

The consolidated financial statements have been prepared on the historical cost basis as modified by the revaluation of freehold and long leasehold 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 affects 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 period 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 8 to 38. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described within the Finance review on pages 41 to 44.

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 adopted the going concern basis in preparing these financial statements after assessing the impact of identified principal risks and, in particular, the possible adverse impact on financial performance, specifically revenue and cash flows, of restrictions imposed by the relevant governments in the UK and Germany in response to the outbreak of Covid-19.

Liquidity

As at 26 September 2020, the Group had cash and cash equivalents of £158m, and undrawn committed unsecured facilities of £140m. We expect to retain significant liquidity headroom against these facilities throughout the going concern assessment period.

The Group's primary source of borrowings is through a secured financing structure made up of ten tranches of fully amortising loan notes with a gross debt value of £1.6bn. These are secured against the majority of the Group's real estate property assets and the future income streams generated from those properties. The periods for repayments of principal vary by class of note with maturity dates ranging from 2023 to 2036, but at a current aggregate annual debt service cost of c.£200m. Interest rate and exchange rate fluctuations have largely been fixed with currency and interest rate swaps which qualify for hedge accounting under IFRS 9 Financial Instruments. Within the securitisation structure, the Group maintains a Liquidity Facility of £295m, which is a condition of the securitisation documents. On 12 June 2020 the Group announced revised financing arrangements that had been agreed with its main creditors to provide additional liquidity and financial flexibility in order to meet the challenges presented by Covid-19. These are summarised below.

Unsecured borrowing facilities of £250m fall due for repayment in December 2021, outside the term of the going concern assessment period.

Revised facilities and covenants

During the period, and as a result of the Covid-19 pandemic, material trading restrictions were imposed on the Group and the sector by governmental authorities, including mandated closure for over three months. Mitigating action was swiftly taken which included agreeing revised arrangements in the secured financing structure with the consent of the controlling creditor of the securitisation and the securitisation Trustee. These can be summarised as:

- a waiver of, and amendment to, the 30 day suspension of business provision, where such provision was waived because the suspension arose due to the enforced closure during the Covid-19 pandemic;
- a waiver of the two quarter look-back debt service coverage ratio test up until July 2021 and a waiver of the four quarter look-back debt service coverage ratio test up until September 2021;
- a waiver of the requirement to appoint a financial adviser which would otherwise have arisen for any periods where the debt service coverage ratio falls to below the required level up until July 2021;
- a reduction in the minimum amount required to be spent on maintenance during FY 2020 and FY 2021 to reflect the operation of the Group's business having been temporarily suspended; and
- a waiver to facilitate drawings of up to £100m in total under the Liquidity Facility providing the Group with additional facilities in order to meet payments of principal and interest, provided such drawings are repaid in full by 15 March 2021.

In order to secure such amendments and waivers, the Group gave certain undertakings in relation to its own financing arrangements, namely, to secure the £250m liquidity facilities referred to below, and an undertaking to provide funding into the securitisation of up to £100m in line with drawings on the Liquidity Facility.

In addition, the following was agreed with the Group's unsecured relationship banks:

- Extension of the term of existing £150m committed unsecured facilities to 31 December 2021; and
- The provision of an additional £100m of liquidity, also to 31 December 2021, backed by the Coronavirus Large Business Interruption Loan Scheme facilitated by the UK Government.

The Group will continue to remain in regular dialogue with its lenders throughout the period.

Full details of the Group's debt arrangements are provided in note 4.2.

Significant judgements and base case
These revised financial arrangements provide a stronger platform for the business to meet the uncertainty ahead, therefore ensuring that liquidity is not expected to be a main concern during the going concern assessment period. Key to successfully meeting the challenge the Group faces will be the depth, duration and recovery profile of the pandemic which will, in turn, dictate the severity of imposed trading restrictions and, therefore, most importantly, the level of sales that the business is able to achieve. The level of sales drives the EBITDA of the business which is a critical measure for covenant compliance tests. The key judgements made by management in arriving at the level of sales are the trajectory of sales recovery, a return to historic trading conditions and the extent of future restrictions.

In reaching this assessment, the Directors have reviewed what they consider to be a plausible base case forecast scenario which includes the impact of the second national lockdown in England from 5 November 2020. This is assumed to be lifted on 2 December 2020 but is expected to be replaced with ongoing severe restrictions on trading in the hospitality sector, leading to an expectation of sales over the important festive trading period being over 40% lower than in previous years. Over the second quarter of FY 2021, to March 2021, sales are forecast to remain materially lower at approximately 25% down on years prior to FY 2020 (i.e. those years not impacted by the Covid-19 pandemic), reflecting management's expectation of further local lockdowns impacting c.10% of the estate, before building back gradually in the second half of FY 2021 as restrictions become less severe, although sales are not assumed to reach the level achieved pre-Covid during FY 2021. In aggregate, sales are forecast to be 15% down against pre Covid-19 comparatives over the period following anticipated reopening in December to the end of FY 2021. Site level operating margins have been assumed to be in line with recent operating margins achieved since reopening in July 2020, which is similar to margins the business has achieved before Covid-19 related closures.

Some limited mitigation and operational cost reduction initiatives are assumed in response to these reduced activity levels, amounting to 10% of total costs, also for the period after reopening. During this time the Group is expected to continue to benefit from assistance from the UK Government, principally in the form of relief from business rates, a reduction in VAT on non-alcohol sales to April 2021 and some limited payment from the Job Retention Bonus, in respect of which the UK Government is expected to provide revised guidance. Access to the Job Retention Scheme to the extended date of March 2021 is assumed, where applicable, in order to protect employment.

Under the base case forecast, the Group continues to remain profitable with no forecast covenant breach, with the securitised four quarter look-back FCF: debt service covenant demonstrating the lowest level of headroom. In FY 2021 the Group continues to remain profitable with sufficient liquidity and no forecast unwaived covenant breaches, although a number of tests have limited remaining headroom.

Reverse stress test
The Group has undertaken reverse stress test modelling, being the identification of that level of downside forecast at which the business model becomes unsustainable for either solvency or liquidity reasons. Due to the complex capital structure of the Group, involving the interaction of both secured and unsecured estates with quarterly covenant testing, there is a very wide range of scenarios on which the reverse stress test can be constructed.

In examining vulnerabilities, management believe that further sales shortfalls are likely to be most acute for the first half of FY 2021. After the assumed reopening in England in December 2020, a deterioration beyond an average of 4% lower sales than the base case for this same period and second half sales in line with base case would result in a breach in covenants as noted below. From January 2021, some provision is assumed in this scenario for the potential for increased tariff costs on imported food and drink as a result of the risk of a no-deal or limited-deal Brexit. These costs have not been included in the base forecast model due to uncertainty and the availability of potential options to mitigate through supply chain arrangements and range changes. In the reverse stress test, management have assumed unmitigated costs to be £11m per annum.

There is a reasonably plausible scenario where the Group could experience the sales shortfalls set out in the reverse stress test which would result in a breach to its covenants. Any breach in covenants would result in a need for a waiver of the banking covenants, or for the Group to renegotiate its borrowing facilities, neither of which are fully within the Group's control. A breach of covenants would also result in the reclassification of £1,542m non-current borrowings to current borrowings. The Directors have, however, assessed that: given the strength of the underlying business including its property estate and brand portfolio; the Group's existing relationships with its main creditors; its historical success in obtaining covenant waivers and in raising finance; and ongoing dialogue with its main creditors, they believe that a waiver of the covenants or renegotiation of the facilities would be successful.

Given the very high degree of uncertainty resulting from the Covid-19 pandemic and resulting restrictions placed on trading in the hospitality sector, a material uncertainty therefore exists, which may cast significant doubt over the Group's ability to trade as a going concern, in which case it may be unable to realise its assets and discharge its liabilities in the normal course of business. This uncertainty stems directly from a lack of clarity on both the extent and the duration of current tiering, local and national lockdowns and operating restrictions, such as social distancing measures, limitations on party sizes and reduced opening times, all of which have an impact on consumers' ability and willingness to visit pubs and restaurants and, therefore, the Group's operational performance translating to sales and EBITDA that determine the Group's continuing covenant compliance.

Going concern statement
Notwithstanding the material uncertainty highlighted above, after due consideration the Directors have a reasonable expectation that the Company and the Group have sufficient resources to continue in operational existence for the period of at least twelve months from the date of approval of these financial statements. Accordingly, the financial statements continue to be prepared on the going concern basis. A review of longer-term viability is provided on page 39 which assesses the Group's ability to continue in operation and meet its liabilities as they fall due over a longer, 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 = €1.09 (2019 £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 = €1.10 (2019 £1 = €1.12) and £1 = $1.27 (2019 £1 = $1.23) 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 the following impact.

IFRS 16 Leases

In the current period, the Group has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees and sets out the principles for recognition, measurement, presentation and disclosure of leases. As a result, the Group, as a lessee, has recognised right-of-use assets representing its right to use the underlying assets, and lease liabilities representing its obligation to make lease payments. In contrast to lessee accounting, lessor accounting under IFRS 16 is largely unchanged.

Given the number of leases and historical data requirements to adopt the full retrospective approach, the Group has applied the modified retrospective approach with assets equal to liabilities, adjusted for any prepaid lease payments, lease incentives, expected dilapidations and lease premiums at transition. As a result, there is no requirement to restate prior period information.

The date of initial application of IFRS 16 for the Group is 29 September 2019. The impact of the adoption of IFRS 16 on the Group balance sheet, Group income statement and Group statement of changes in equity is shown in note 5.3.

The Group as lessee

The Group has applied 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 Group now assesses whether a contract is or contains a lease based on the new definition of a lease for all contracts entered into or modified on or after 29 September 2019. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group has also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a remaining lease term of twelve months or less and do not contain a purchase option, or are lease contracts for which the underlying asset is of low value.

Where a lease is identified, the Group recognises a right-of-use asset and a corresponding lease liability. The lease liability is measured at the present value of the lease payments, using the lessee's incremental borrowing rate specific to term, country, currency and remaining lease term as the discount rate, if the rate implicit in the lease is not readily determinable. Lease payments include fixed payments, less any lease incentives receivable, and variable lease payments that depend on an index or rate, with these being initially measured using the index or rate at the commencement date. Any variable lease payments that do not depend on an index or rate, are recognised as an expense in the period in which the event or condition that triggers the payment occurs. The lease liability is presented as a separate line in the Group balance sheet, split between current and non-current liabilities.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest rate method) and by reducing the carrying amount to reflect the lease payments made. The lease liability is re-measured with a corresponding adjustment to the right-of-use asset, when there is a change in future lease payments resulting from a rent review, change in an index or rate, a change in lease term, e.g. lease extension, or a change in the Group's assessment of whether it is reasonably certain to exercise or not exercise a break option.

The Group recognises right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less accumulated depreciation and impairment losses and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, adjusted for any re-measurement of lease payments made at or before the commencement date, less any lease incentives received. Right-of-use assets are depreciated over the shorter of the asset's useful life or the lease term on a straight-line basis. Right-of-use assets are subject to and reviewed regularly for impairment. This replaces the previous requirement to recognise a provision for fixed rental charges within onerous lease contracts.

Under IFRS 16, there is a lease-by-lease transition choice whereby a lessee can take a practical expedient to rely on assessments immediately before the date of initial application of whether leases are onerous under the definition within IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and to adjust the right-of-use asset by this amount. Alternatively, the new requirements under IFRS 16 can be applied and the right-of-use asset is tested for impairment in accordance with IAS 36 Impairment of Assets at the date of transition. The Group has considered this on a lease by lease basis with a transitional impairment review taken on a number of leases.

The transitional impairment review has resulted in an impairment charge which is presented as an opening reserves adjustment, net of the reversal of onerous lease provisions no longer required. This impairment predominantly resulted from the application of different discount rates in line with the applicable accounting standards. The onerous lease provisions previously recognised in accordance with IAS 37 and the IFRS 16 right-of-use calculations both use lower discount rates such as a risk-free or incremental borrowing rate. However, on adoption of IFRS 16 and recognition of right-of-use assets, these assets are tested for impairment under IAS 36 which uses a market participants' rate. The application of these standards and changes in discount rates have caused an impairment on numerous right-of-use assets.

The Group recognises lease payments in relation to short-term leases and low value assets as an operating expense on a straight-line basis over the term of the lease.

At the commencement date of property leases the Group determines the lease term to be the full term of the lease, assuming any option to break or extend the lease is unlikely to be exercised. Leases are regularly reviewed and will be revalued if it becomes likely that a break clause or option to extend the lease will be exercised. Judgement is also required in respect of property leases where the current lease term has expired but the Group remains in negotiation with the landlord for potential renewal. Where the Group believes renewal to be reasonably certain and the lease is protected by the Landlord Tenant Act, it will be treated as having been renewed at the date of termination of the previous lease term and on the same terms as the previous lease. Where renewal is not considered to be certain the leases are included with a lease term which reflects the anticipated notice period under relevant legislation. The lease will be revalued when it is renewed to take account of the new terms.

The Group as lessor
IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and accounts for those two types of leases differently.

However, IFRS 16 has changed and expanded the disclosures required, in particular with regard to 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 sub-lease as two separate contracts. The intermediate lessor is required to classify the sub-lease 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).

As a result of this change, the Group has reclassified certain of its sub-lease agreements as finance leases. As required by IFRS 9, an allowance for expected credit losses has been recognised on the finance lease receivables.

The impact of the adoption of IFRS 16 on the Group balance sheet, Group income statement and Group statement of changes in equity is shown in note 5.3.

Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7
On 26 September 2019 the International Accounting Standards Board (IASB) published Interest Rate Benchmark Reform, Amendments to IFRS 9, IAS 39 and IFRS 7 bringing to a conclusion phase one of the IASB's work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The Group has early adopted the amendments from 29 September 2019.

The Intercontinental Exchange Benchmark Administration (IBA) has announced plans to phase out the IBOR benchmark and move to a new benchmark known as alternate reference rates (ARR) by the end of 2021. The amendments address the uncertainty caused by the current interest rate benchmark reforms and allow entities to continue to apply hedge accounting to hedge relationships containing instruments that are affected by the benchmark reforms.

As further described in note 4.2 the Group has floating rate debt linked to GBP LIBOR and USD LIBOR which it cash flow hedges using interest rate and cross currency interest rate swaps as described in note 4.4. The amendments allow the Group to continue to apply hedge accounting through the transition to the new benchmark rate even though there is uncertainty about the timing and amount of the hedged cash flows as a result of the interest rate benchmark reforms.

The Group will not discontinue hedge accounting should any assessment of effectiveness indicate any ineffectiveness as a direct result of the change in benchmark rate.

The Group continues to monitor the situation with regards the phasing out of LIBOR and its proposed replacement benchmark but at this stage has not engaged with counterparties to negotiate the appropriate amendments from LIBOR to a replacement benchmark rate. The Group expects to transition its swaps and loan notes to the same replacement benchmark rate at the same time and will continue to have highly effective hedge relationships as a result.

The amendments will continue to be applied until any uncertainty arising from the benchmark reforms to which the Group is exposed has ended. The Group has assumed that this uncertainty will continue until the swap and debt contracts, in hedge relationships, that reference LIBOR have been updated to state the replacement benchmark rate and the date on which it will first apply.

Other accounting standards effective for the first time in the current period

Accounting standard	Effective date
IFRIC 23 Uncertainty over Income Tax Treatments	The Group has adopted IFRIC 23 for the first time in the current period. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Group to: • determine whether uncertain tax positions are assessed separately or as a group; and • assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings: – If yes, the Group should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings. – If no, the Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method. The application of this has had no material impact on the financial statements in the current or prior period.
Amendments to IAS 28 Long-term Interest in Associates and Joint Ventures	The Group has adopted the amendments to IAS 28 for the first time in the current period. The amendment clarifies that IFRS 9, including its impairment requirements, applies to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The Group applies IFRS 9 to such long-term interests before it applies IAS 28. In applying IFRS 9, the Group does not take account of any adjustments to the carrying amount of long-term interests required by IAS 28 (i.e. adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28). As the Group does not hold material long-term interests in associates, there has not been a material impact of adopting this standard.
Annual Improvements to IFRSs 2015–2017 Cycle	The Group has adopted the amendments included in the Annual Improvements to IFRS Standards 2015–2017 Cycle for the first time in the current period. The Annual Improvements include amendments to four Standards. *IAS 12 Income Taxes* The amendments clarify that the Group should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Group originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits. *IAS 23 Borrowing Costs* The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. *IFRS 3 Business Combinations* The amendments clarify that when the Group obtains control of a business that is a joint operation, the Group applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation. *IFRS 11 Joint Arrangements* The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business and it obtains joint control of such a joint operation, the Group does not remeasure its PHI in the joint operation. The application of the above has had no impact on the financial statements.
Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement	The Group has adopted the amendments of IAS 19 for the first time in the current period. The amendments clarify that the past service cost (or the gain or loss on settlement) is calculated by measuring the defined benefit liability (or asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income. The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (or asset) have also been amended. The Group will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (or asset) as remeasured under IAS 19:99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (or asset)). As the Group's defined benefit pension scheme is closed to future accrual, and there have been no plan amendments or curtailments in the current period, the application of the above has had no impact on the financial statements.

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.

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
IFRS 17 Insurance Contracts	1 January 2023*
Amendments to the Conceptual Framework for Financial Reporting, including amendments to references to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IFRS 3 Business Combinations – Definition of a Business	1 January 2020
Amendments to IAS 1 and IAS 8 – Definition of Material	1 January 2020
Amendment to IFRS 16 Leases Covid-19 – Related Rent Concessions (issued on 28 May 2020)	1 June 2020
Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases)	1 January 2021
Amendments to IAS 1 (Classification of Liabilities as Current or Non-current)	1 January 2023
Amendments to IFRS 3 (Reference to the Conceptual Framework)	1 January 2022
Amendments to IAS 16 (PPE – proceeds before intended use)	1 January 2022
Amendments to IAS 37 (Onerous Contracts – cost of fulfilling a contract)	1 January 2022
Annual improvements to IFRS standards 2018-2020 cycle (Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture)	1 January 2022

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.

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 evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. In the current period, there has been significant judgement around the going concern assessment, including estimation uncertainty in the forecasts used for this assessment. Full details are provided in the going concern review on pages 104 and 105.

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

Judgements and estimates for the period remain largely unchanged from prior period, other than the consideration of the impact of Covid-19 where relevant. In addition, there are new judgements and estimates within note 3.2 Leases as a result of the adoption of IFRS 16 and the impact of Covid-19. Judgement around provisions are also no longer relevant as onerous lease provisioning is no longer a requirement post implementation of IFRS 16.

Critical judgements are described in each section listed below:

- Note 2.2 Separately disclosed items
- Note 2.4 Taxation
- Note 3.1 Property, plant and equipment
- Note 3.2 Leases
- Note 4.5 Pensions

Key sources of estimation uncertainty are described in:

- Note 2.4 Taxation
- Note 3.1 Property, plant and equipment
- Note 3.2 Leases

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 separately disclosed 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	
	2020 52 weeks £m	2019 52 weeks £m	**2020 52 weeks £m**	2019 52 weeks £m	**2020 52 weeks £m**	2019 52 weeks £m
Revenue – sales to third parties	**1,401**	2,147	**74**	90	**1,475**	2,237
Segment non-current assets[a]	**4,698**	4,531	**38**	12	**4,736**	4,543

a. Includes balances relating to intangibles, property, plant and equipment, right-of-use assets, finance lease receivables 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 tenant's fixtures and fittings, impairment review of short leasehold and unlicensed properties, impairment review of right-of-use assets, revaluation of assets held for sale, legal costs associated with the dispute in relation to the defined benefit pension scheme, past service cost in relation to the defined benefit pension obligation, VAT refund in relation to gaming duty and costs directly associated with the Government enforced closure of pubs as a result of the Covid-19 pandemic.

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:

- 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 comparability between periods of the Group's trading if not separately disclosed.
- Costs directly associated with the Government enforced closure of pubs as result of the Covid-19 pandemic. These costs are disclosed separately as they are not considered to be part of normal trading activities.
- A refund in relation to the settlement of a long-standing claim with HMRC regards gaming duty is separately disclosed due to its size.
- 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 comparability between periods of the Group's trading performance if not separately disclosed.
- Tax rate change – the change in tax rate is not part of normal trading activity and due to the size in any given period, this is disclosed separately.

The items identified in the current period are as follows:

	Notes	2020 52 weeks £m	2019 52 weeks £m
Separately disclosed items			
Past service cost in relation to the defined benefit obligation	a	–	(19)
Costs directly associated with Covid-19 and the enforced closure of pubs	b	**(11)**	–
Gaming machine settlement	c	**13**	–
Total separately disclosed items recognised within operating costs		**2**	(19)
Net profit arising on property disposals		–	1
Movement in the valuation of the property portfolio:			
– Impairment arising from the revaluation of freehold and long leasehold properties	d	**(43)**	(4)
– Impairment of freehold and long leasehold tenant's fixtures and fittings	e	**(10)**	–
– Impairment of short leasehold and unlicensed properties	f	**(7)**	(5)
– Impairment of right-of-use assets	g	**(33)**	–
– Reversal of past impairment on transfer to assets held for sale	h	–	7
Net movement in the valuation of the property portfolio		**(93)**	(2)
Total separately disclosed items before tax		**(91)**	(20)
Tax credit relating to above items		**16**	4
Tax charge relating to change in tax rate	i	**(10)**	–
Total separately disclosed items after tax		**(85)**	(16)

a. 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 and charged in the prior period was £19m.
b. Costs directly associated with the Covid-19 pandemic primarily relate to the disposal of stock items at site and within distribution depots that are beyond useable dates as a result of the Government enforced closure of pubs on 20 March 2020. This excessive wastage is not considered to be part of normal trading activity.
c. The income of £13m relates to a long-standing claim with HMRC, relating to VAT on gaming machines. HMRC first paid the Group £13m in May 2010 but following an appeal by HMRC, the Group repaid this in 2014. During the 52 weeks ended 26 September 2020, HMRC agreed to settle this amount with the Group. The amount recognised is the settlement value including estimated interest.
d. 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.
e. Impairment of freehold and long leasehold tenant's fixtures and fittings where their carrying values exceed their recoverable amounts. See note 3.1 for further details.
f. 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.
g. Impairment of right-of-use assets where their carrying values exceed their recoverable amounts. See note 3.2 for further details.
h. During the prior period, a revaluation uplift, which reverses a previous impairment, was recognised on reclassification of property, plant and equipment to assets held for sale.
i. A deferred tax charge has been recognised in the current period following the substantive enactment of legislation on 17 March 2020, which increased the UK standard rate of corporation tax from 17% to 19% from 1 April 2020.

2.3 REVENUE AND OPERATING COSTS

Accounting policies

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.

Government grants

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

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

Coronavirus Job Retention Scheme (CJRS)

Under this scheme, HMRC reimburses up to 80% of the wages of certain employees who have been furloughed. The scheme is designed to compensate for staff costs, so amounts received are recognised in the income statement over the same period as the costs to which they relate. In the income statement, operating costs are shown net of grant income received. The scheme commenced on 20 March 2020 and will continue until 31 March 2021.

Eat Out to Help Out

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

Business rates

Businesses in the retail, hospitality and leisure sectors in England were granted 100% business rates relief for the 2020/2021 rates year.

Revenue is analysed as follows:

	2020 52 weeks £m	2019 52 weeks £m
Food	**782**	1,137
Drink	**645**	1,025
Services	**48**	75
	1,475	2,237

Included within food and drink revenue for the 52 weeks ended 26 September 2020 is an amount of £30m (£26m food and £4m drink) received from the Government in relation to the Eat Out to Help Out Scheme, which operated during August 2020.

Although this has not been quantified, the Group has benefitted from a reduction in the rate of VAT from 20% to 5% on non-alcoholic sales which was introduced by the UK Government on 15 July 2020 and will last until 31 March 2021.

Revenue from services includes rent receivable from unlicensed properties and leased operations of £7m (2019 £10m). The rental income received is lower in the current period, as a result of the adoption of IFRS 16 and the granting of lease incentives to tenants resulting from Covid-19. Under IFRS 16, a number of the Group's sub-leases have been reclassified from operating leases to finance leases (see note 3.2).

Operating costs are analysed as follows:

	2020 52 weeks £m	2019 52 weeks £m
Raw materials and consumables recognised as an expense[a]	**370**	574
Changes in inventory of finished goods and work in progress	**4**	–
Employee costs	**519**	721
Hire of plant and machinery	**14**	23
Property operating lease costs[b]	**9**	59
Other costs[c]	**305**	424
Operating costs before depreciation, amortisation and separately disclosed items	**1,221**	1,801
Other separately disclosed items (note 2.2)	**(2)**	19
	1,219	1,820
Net profit arising on property disposals	**–**	(1)
Depreciation of property, plant and equipment (note 3.1)	**110**	116
Depreciation of right-of-use assets (note 3.2)	**41**	–
Amortisation of intangible assets (note 3.5)	**3**	3
Net movement in the valuation of the property portfolio (note 2.2)	**93**	2
Depreciation, amortisation and movements in the valuation of the property portfolio	**247**	121
Total operating costs	**1,466**	1,940

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.
b. Following the implementation of IFRS 16 in the current period, fixed rental costs associated with property leases are no longer recognised as operating costs but are instead charged as a depreciation and interest expense (see notes 1 and 5.3). The remaining costs included for the 52 weeks ended 26 September 2020 are variable lease payments and rental costs for short-term leases.
c. Other costs include the cost of business rates. During the current period, the UK Government announced 100% rate relief for all pubs and restaurants for the business rates year 2020/2021. The impact in the current period is an estimated saving of £47m (2019 £nil).

Employee costs

	2020 52 weeks £m	2019 52 weeks £m
Wages and salaries	**626**	656
Share-based payments (note 4.6)	**2**	3
Social security costs	**43**	50
Pensions (note 4.5)	**13**	12
Employee costs before Government grants	**684**	721
Government grant[a]	**(165)**	–
Total employee costs	**519**	721

a. The Government grant for the 52 weeks ended 26 September 2020 was received in relation to the Coronavirus Job Retention Scheme, to contribute towards the cost of employee wages and salaries, social security costs and pensions. This was introduced by the UK Government in response to the Covid-19 pandemic. The scheme commenced on 20 March 2020 and will continue until 31 March 2021.

The 4-weekly average number of employees including part-time employees was 43,394 retail employees (2019 44,521) and 1,072 support employees (2019 1,039).

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 74 to 89.

2.3 REVENUE AND OPERATING COSTS continued

Auditor remuneration

	2020 52 weeks £m	2019 52 weeks £m
Fees payable to the Group's auditor for the:		
– audit of the consolidated financial statements	**0.2**	0.2
– audit of the Company's subsidiaries' financial statements	**0.4**	0.3
Total audit fees	**0.6**	0.5
Other fees to auditor:		
– audit related assurance services	**–**	0.1
Total non-audit fees	**–**	0.1

Auditor's remuneration of £0.5m (2019 £0.4m) was paid in the UK and £0.1m (2019 £0.1m) was paid in Germany.

2.4 TAXATION

Accounting policies

Current tax

The income tax (expense)/credit represents both the income tax payable, based on profits/(losses) 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.

Critical accounting judgements

Recognition of deferred tax assets involves judgement regarding the future financial performance of the UK Group. The future financial performance used in this judgement is the base case forecast scenario as described in the going concern assessment in section 1. Under the base case forecast the Group continues to remain profitable in future years. This base case scenario has been used to forecast future taxable profits.

Key sources of estimation uncertainty

Differences in forecast taxable profits and actual future profits could impact the level of deferred tax assets recognised in future periods. The key estimation uncertainties in forecasting future financial performance will be the depth, duration and recovery profile of the Covid-19 pandemic which will in turn dictate the severity of trading restrictions imposed on the Group by the Government.

Taxation – Group income statement

	2020 52 weeks £m	2019 52 weeks £m
Current tax:		
– UK corporation tax	**–**	(31)
– Amounts over provided in prior periods	**2**	3
Total current tax credit/(charge)	**2**	(28)
Deferred tax:		
– Origination and reversal of temporary differences	**21**	(5)
– Effect of changes in UK tax rate	**(10)**	–
– Adjustments in respect of prior periods	**(2)**	(1)
Total deferred tax credit/(charge)	**9**	(6)
Total tax credit/(charge) in the Group income statement	**11**	(34)
Further analysed as tax relating to:		
Loss/(profit) before separately disclosed items	**5**	(38)
Separately disclosed items	**6**	4
	11	(34)

The tax credit in the financial statements is wholly attributable to deferred tax as the full period results are a loss which results in no corporation tax payable for the 52 weeks ended 26 September 2020. The standard rate of corporation tax applied to the reported loss is 19.0% (2019 19.0% applied to the reported profit).

The tax credit (2019 charge) in the Group income statement for the period is lower than (2019 equal to) the standard rate of corporation tax in the UK. The differences are reconciled below:

	2020 52 weeks £m	2019 52 weeks £m
(Loss)/profit before tax	**(123)**	177
Taxation credit/(charge) at the UK standard rate of corporation tax of 19.0% (2019 19.0%)	**23**	(34)
Expenses not deductible	**(3)**	(2)
Income not taxable	**1**	1
Adjustments in respect of prior periods	**–**	2
Effect of different tax rates of subsidiaries operating in other jurisdictions	**–**	(1)
Tax charge in respect of change in UK tax rate	**(10)**	–
Total tax credit/(charge) in the Group income statement	**11**	(34)

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

	2020 52 weeks £m	2019 52 weeks £m
Deferred tax in the Group income statement:		
Accelerated capital allowances	**(1)**	1
Retirement benefit obligations	**(8)**	(4)
Unrealised gains on revaluations	**13**	(1)
Tax losses – UK	**13**	(2)
Tax losses – overseas	**–**	(1)
Share-based payments	**(1)**	1
Rolled over and held over gains	**(7)**	–
Total deferred tax credit/(charge) in the Group income statement	**9**	(6)

2.4 TAXATION continued

Taxation – other comprehensive income

	2020 52 weeks £m	2019 52 weeks £m
Deferred tax:		
Items that will not be reclassified subsequently to profit or loss:		
– Unrealised losses/gains due to revaluations – revaluation reserve	**(2)**	(14)
– Unrealised losses/gains due to revaluations – retained earnings	**1**	(1)
– Rolled over and held over gains – retained earnings	**(6)**	–
– Remeasurement of pension liability	**8**	(3)
	1	(18)
Items that may be reclassified subsequently to profit or loss:		
– Cash flow hedges	**5**	10
Total tax credit/(charge) recognised in other comprehensive income	**6**	(8)

Tax relating to items recognised directly in equity

	2020 52 weeks £m	2019 52 weeks £m
Deferred tax:		
– Tax (charge)/credit related to share-based payments	**(2)**	2

Taxation – Group balance sheet

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

	2020 £m	2019 £m
Deferred tax asset:		
Retirement benefit obligation (note 4.5)	**36**	36
Derivative financial instruments	**57**	52
Tax losses – UK	**17**	4
Share-based payments	**1**	4
IFRS 16 transitional adjustments[a]	**5**	–
Total deferred tax asset	**116**	96
Deferred tax liability:		
Accelerated capital allowances	**(31)**	(30)
Rolled over and held over gains	**(125)**	(112)
Unrealised gains on revaluations	**(174)**	(186)
Depreciated non-qualifying assets	**(3)**	(3)
Total deferred tax liability	**(333)**	(331)
Total	**(217)**	(235)

a. Short-term temporary differences recognised on transition to IFRS 16 (see note 5.3).

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:

	2020 £m	2019 £m
Deferred tax asset	**116**	96
Add: Accelerated capital allowances	**(31)**	(30)
Deferred tax assets	**85**	66
Deferred tax liability	**(333)**	(331)
Less: Accelerated capital allowances	**31**	30
Deferred tax liabilities	**(302)**	(301)
Net deferred tax liability	**(217)**	(235)

Unrecognised tax allowances
At the balance sheet date the Group had unused tax allowances of £74m in respect of unclaimed capital allowances (2019 £87m) available for offset against future profits.

A deferred tax asset has not been recognised on tax allowances with a value of £14m (2019 £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 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.

The Finance Act 2020 maintained the main rate of corporation tax rate at 19% from 1 April 2020, overriding the Finance Act 2016. The effect of this change has been reflected in the closing deferred tax balances at 26 September 2020.

2.5 (LOSS)/EARNINGS PER SHARE

Basic (loss)/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 (loss)/earnings per share, the weighted average number of ordinary shares is adjusted to assume conversion of all dilutive potential ordinary shares.

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

	2020 52 weeks	2019 52 weeks
Basic (loss)/earnings per share:		
Total (loss)/profit for the period (£m)	**(112)**	143
Weighted average number of ordinary shares for the purposes of basic earnings per share (millions)	**428**	427
Basic (loss)/earnings per share (pence)	**(26.2)p**	33.5p
Total (loss)/profit for the period (£m)	**(112)**	143
Separately disclosed items, net of tax	**85**	16
Adjusted (loss)/profit for the period[a] (£m)	**(27)**	159
Adjusted (loss)/earnings per share[a] (pence)	**(6.3)p**	37.2p
Diluted (loss)/earnings per share:		
Weighted average number of ordinary shares for the purposes of basic earnings per share (millions)	**428**	427
Effect of dilutive potential ordinary shares:		
– Contingently issuable shares (millions)	**–**	1
– Other share options (millions)	**1**	1
Number of shares for the purpose of diluted earnings per share (millions)	**429**	429
Diluted (loss)/earnings per share (pence)	**(26.1)p**	33.3p
Adjusted diluted (loss)/earnings per share[a] (pence)	**(6.3)p**	37.1p

a. Adjusted (loss)/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 161 and 162 of this report.

At 26 September 2020, 1,894,111 (2019 782,078) 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, and the associated landlord's fixtures, fittings and equipment (i.e. fixed fittings) are revalued annually and are therefore held at fair value less depreciation. Tenant's fixtures and fittings (i.e. loose fixtures) within freehold and long leasehold properties, are held at cost less depreciation and impairment.

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

All land and buildings are disclosed as a single class of asset within the property, plant and equipment table, as we do not consider the short leasehold and unlicensed buildings to be material for separate disclosure.

Non-current assets held for sale are held at their carrying value or their fair value less costs to sell where this is lower.

Depreciation

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

Freehold land is not depreciated.

Freehold and long leasehold buildings are depreciated so that the difference between their carrying value and estimated residual value is written off over 50 years from the date of acquisition. The residual value of freehold and long leasehold buildings is reassessed each period 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 and fittings, 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 twelve months, FMT is taken as the post investment forecast, as the current period trading performance includes a period of closure.

Valuation multiples derived via third-party inspections determine brand standard multiples which are then used to value the remainder of the non-inspected estate via an extrapolation exercise, with the output of this exercise reviewed at a high level by 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 leaseholds, unlicensed properties and fixtures and fittings are reviewed on an outlet basis for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell or value in use. Any changes in outlet earnings or cash flows, the discount rate applied to those cash flows, or the estimate of sales proceeds could give rise to an additional impairment loss.

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

Critical accounting judgements

Revaluation of freehold and long leasehold properties

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

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

Due to the impact of Covid-19 in the current period, judgement has been applied to determine the most appropriate measure of site level FMT. Given the enforced closure of all sites on 20 March 2020, as well as subsequent local lockdowns, there was significant impact on FY 2020 trading profit for each site. FMT has therefore been determined by reference to the trading performance up to the point of closure, as well as the previous two years of trading performance. In addition, after application of a valuation multiple to provide a site valuation, an income shortfall deduction has been made to reduce this value by the difference between the FMT and the expected Covid-19 related reduction in profit for each site during FY 2021.

Impairment review of short leasehold and unlicensed property and tenant's fixtures and fittings

For the short leasehold properties and tenant's fixtures and fittings impairment review, judgement has been applied to determine the most appropriate forecast to use as a result of the impact of Covid-19 on site profitability and cash flows. Site level forecasts, including the allocation of directly attributable overhead costs, have been used that formed the basis of the overall Group forecast for FY 2021 that was in place at the balance sheet date. Management apply judgement when allocating overhead costs to site cash flows, with an overhead allocation being made only for those costs that can be directly attributed to a site on a consistent basis.

The forecast at the balance sheet date assumed that the Group would not be subject to enforcement of a prolonged national lockdown but would continue to trade at a materially lower level of sales due to selected regional lockdowns alongside other national restrictions, under the UK Government's three tier alert system in England (and similar arrangements in Scotland, Wales, Northern Ireland and Germany). The forecast assumed reduced sales throughout FY 2021, building up to pre-Covid-19 levels of trade by the fourth quarter of FY 2021. In addition, the forecast also includes a reduction in VAT on non-alcohol sales to April 2021 and business rate relief to April 2021.

Key sources of estimation uncertainty

Revaluation of freehold and long leasehold properties

The application of the valuation methodology requires two key sources of estimation uncertainty: the estimation of valuation multiples, which are determined via third-party inspections including consideration of a multiple reduction for the impact of Covid-19; and an estimate of fair maintainable trade, including reference to historic and future projected income levels.

In addition, in the current period, an income shortfall deduction has been made from the resulting valuation to estimate the impact on profit of the post-Covid-19 rebuild of trade in FY 2021.

The valuers also make reference to market evidence of transaction prices for similar properties. An adjustment to any of these assumptions could lead to a material change in the property valuation. At 26 September 2020 the spread of the Covid-19 virus and social distancing measures put in place in order to stem that spread, has disrupted activity in real estate markets for the hospitality sector, creating heightened valuation uncertainty for the Group's valuers. As a result, the valuation report includes a clause which highlights a 'material valuation uncertainty'. For the avoidance of doubt, this clause does not mean that the valuation cannot be relied upon. Rather, it has been included to ensure transparency and to provide further insight as to the market context under which the valuation opinion was prepared.

A sensitivity analysis of changes in valuation multiples, FMT and the income shortfall deduction, in relation to the properties to which these estimates apply, is provided on page 120. The carrying value of properties to which these estimates apply is £4,129m (2019 £4,343m).

Impairment review of short leasehold and unlicensed property and tenant's fixtures and fittings

The impairment review requires three key sources of estimation uncertainty in calculating the value in use: the estimation of forecast cash flows for each site; the selection of an appropriate discount rate and the selection of an appropriate long-term growth rate. Both the discount rate and long-term growth rate are applied consistently to each cash-generating unit.

A sensitivity of changes in forecast cash flows, the discount rate and the long-term growth rate is provided on page 121. The carrying value of assets to which these estimates apply is £164m.

3.1 PROPERTY, PLANT AND EQUIPMENT continued

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 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 and impairment	86	(4)	82
At 28 September 2019	4,048	1,063	5,111
Additions	24	73	97
Disposals[a]	(8)	(98)	(106)
Revaluation and impairment	(196)	(12)	(208)
At 26 September 2020	**3,868**	**1,026**	**4,894**
Accumulated depreciation			
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
Provided during the period	6	104	110
Disposals[a]	(7)	(97)	(104)
At 26 September 2020	**78**	**511**	**589**
Net book value			
At 26 September 2020	**3,790**	**515**	**4,305**
At 28 September 2019	3,969	559	4,528
At 29 September 2018	3,865	561	4,426

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

Certain assets with a net book value of £39m (2019 £41m) 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 £3,685m (2019 £3,881m), which are pledged as security for the securitisation debt and over which there are certain restrictions on title.

Cost at 26 September 2020 includes £8m (2019 £7m) of assets in the course of construction.

Revaluation of freehold and long leasehold properties

The freehold and long leasehold properties have been valued at fair value, as at 26 September 2020, using information provided by CBRE, independent chartered surveyors. The valuation was carried out in accordance with the RICS Valuation – Global Standards 2020 which incorporate the International Valuation Standards and the RICS Valuation – Professional Standards UK (the 'Red Book') assuming each asset is sold as a fully operational trading entity. The fair value has been determined having regard to factors such as current and future projected income levels. As part of this, CBRE have taken into account the expected rebuild in trade following reopening as a result of Covid-19, as well as location, quality of the pub restaurant and recent market transactions in the sector. In the current period CBRE have therefore reduced the property multiples for the expected impact of Covid-19.

Sensitivity analysis

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

FMT

The average movement in FMT of revalued properties over the last three financial periods is 1.4%. It is estimated that, given the multiplier effect, a 1.4% change in the FMT of the freehold or long leasehold properties would generate an approximate £52m movement in their valuation.

Multiples

Valuation multiples are determined at an individual brand level. Over the last three financial periods, the weighted average brand multiple has moved by an average of 0.2. It is estimated that a 0.2 change in the multiple would generate an approximate £88m movement in valuation.

Income shortfall deduction

The income shortfall deduction is calculated by comparing the site level FMT with the site level profit forecasts contained within the Group FY 2021 profit forecast. A downside profit forecast for FY 2021 existed at the balance sheet date which provides a sensitivity against this base position. This potential downside scenario of 11.2% reduction in profit, assumed a longer turnaround of profit back to pre-Covid-19 levels. Applying this downside scenario to the income shortfall calculation would result in an approximate £33m reduction in the valuation.

Impairment review
The fair value of tenant's fixtures and fittings are removed from the valuation of freehold and long leasehold properties and are subsequently reviewed for impairment by comparing their recoverable amount to carrying values. Any resulting impairment relates to sites with poor trading performance, where the output of the calculation is insufficient to justify their current book value.

Short leasehold and unlicensed properties (comprising land and buildings and fixtures, fittings and equipment) which are not revalued to fair market value, are reviewed for impairment by comparing site recoverable amount to their carrying values. Any resulting impairment relates to sites with poor trading performance, where the output of the value in use calculations are insufficient to justify their current net book value.

Recoverable amount is determined as being the higher of fair value or value in use. Value in use calculations use forecast trading performance cash flows, which are discounted by applying a pre-tax discount rate of 9.9% (2019 7.7%) and a long-term growth rate of 0.0% (2019 0.0%).

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

Forecast cash flows
The forecast cash flows used in the value in use calculations are site level forecasts that form the overall Group profit forecast for FY 2021, in existence at the balance sheet date. Management have determined a potential downside scenario to this forecast which assumes a longer turnaround of profit back to pre-Covid-19 levels. The use of this downside forecast results in a reduction to EBITDA in FY 2021 of 11.2% against the FY 2021 base case forecast. This would result in an approximate £1m increase in the impairment recognised.

Discount rate
The discount rate applied in the value in use calculations is the Group WACC. Over the last three financial periods, the discount rate used in impairment reviews has moved by an average of 0.9%. It is estimated that a 0.9% increase in this rate would generate an additional £8m impairment charge. Similarly, it is estimated that a 0.9% decrease would reduce the impairment charge by £4m.

Long-term growth rate
Due to market uncertainty at the balance sheet date, mainly in relation to the ongoing Covid-19 pandemic, no long-term growth is included in the value in use calculations. However, should a long-term growth rate of 2.0% be applied, the impairment charge would reduce by £5m.

Current period 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:

	2020 52 weeks £m	2019 52 weeks £m
Group income statement		
Revaluation deficit charged as an impairment	**(93)**	(76)
Reversal of past revaluation deficits	**50**	72
Total impairment arising from the revaluation	**(43)**	(4)
Impairment of short leasehold and unlicensed properties	**(7)**	(7)
Impairment of freehold and long leasehold tenant's fixtures and fittings	**(10)**	–
Reversal of past impairments of short leasehold and unlicensed properties	**–**	2
Total impairment of short leaseholds, unlicensed properties and tenant's fixtures and fittings	**(17)**	(5)
Reversal of past impairment on transfer to assets held for sale	**–**	7
	(60)	(2)
Group statement of other comprehensive income		
Unrealised revaluation surplus	**77**	199
Reversal of past revaluation surplus	**(225)**	(115)
	(148)	84
Net (decrease)/increase in property, plant and equipment	**(208)**	82

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.

3.1 PROPERTY, PLANT AND EQUIPMENT continued

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.

	Number of pubs	Land and buildings £m	Fixtures, fittings and equipment £m	Net book value[a] £m
26 September 2020				
Freehold properties	**1,329**	**3,447**	**398**	**3,845**
Long leasehold properties	**94**	**250**	**33**	**283**
Total revalued properties	**1,423**	**3,697**	**431**	**4,128**
Short leasehold properties		**73**	**73**	**146**
Unlicensed properties		**15**	**3**	**18**
Other non-pub assets		**1**	**4**	**5**
Assets under construction		**4**	**4**	**8**
Total property, plant and equipment		**3,790**	**515**	**4,305**

	Number of pubs	Land and buildings £m	Fixtures, fittings and equipment £m	Net book value[a] £m
28 September 2019				
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

a. The carrying value of freehold and long leasehold properties based on their historical cost (or deemed cost at transition to IFRS) is £2,601m and £181m respectively (2019 £2,657m and £190m).

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					
	Over 12 times	**10 to 12 times**	**8 to 10 times**	**6 to 8 times**	**Under 6 times**	**Total**
26 September 2020						
Number of pubs in each FMT income banding:						
< £200k pa	**55**	**10**	**74**	**227**	**12**	**378**
£200k to £360k pa	**2**	**6**	**209**	**222**	**16**	**455**
> £360k pa	**1**	**48**	**310**	**220**	**11**	**590**
	58	**64**	**593**	**669**	**39**	**1,423**

	Valuation multiple applied to FMT					
	Over 12 times	10 to 12 times	8 to 10 times	6 to 8 times	Under 6 times	Total
28 September 2019						
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

Movements in valuation multiples between financial periods are the result of changes in property market conditions. The average weighted multiple is 8.1 (2019 8.6).

Capital commitments

	2020 £m	2019 £m
Contracts placed for expenditure on property, plant and equipment not provided for in the consolidated financial statements	**9**	19

3.2 LEASES
Leases – Group as lessee

Accounting policies
The Group assesses whether a contract is or contains a lease, at inception of the contract, to all lease contracts entered into or modified on or after 29 September 2019.

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

The lease liability is initially measured at the present value of the future lease payments unpaid at the lease commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in substance fixed payments), less any lease incentives receivable; and
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date.

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

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

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

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

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

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

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

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

Impairment of right-of-use assets
Right-of-use assets are tested annually for impairment in accordance with IAS 36 Impairment of Assets, by comparing their recoverable amounts to their carrying values. Any resulting impairment relates to properties with poor forecast trading performance, where their estimated recoverable amount is insufficient to justify their current net book value. For practical reasons the impairment review of right-of-use assets is performed simultaneously with the impairment review of the associated short leasehold properties classified within property, plant and equipment, as an individual site is a single cash-generating unit (see note 3.1).

Recoverable amount is determined as being the higher of fair value or value in use. Value in use calculations use forecast trading performance cash flows.

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

Impairment of right-of-use assets
Judgement is also required when assessing whether a right-of-use asset should be impaired as this requires management to determine the most reliable source for the basis of future income. Where sites have been impacted by expansionary investment in the previous twelve months, management judgement is used to determine the most appropriate source of post-investment profitability, which is likely to be based on a post-investment forecast as the current period trading performance is impacted by a period of closure.

In the current period, judgement has been applied to determine the most appropriate forecast to use as a result of the impact of Covid-19 on site profitability. Site level forecasts, including the allocation of directly attributable overhead costs, have been used that formed the basis of the overall Group forecast for FY 2021 that was in place at the balance sheet date. Management apply judgement when allocating overhead costs to site cash flows, with an overhead allocation being made only for those costs that can be directly attributed to a site on a consistent basis.

The forecast at the balance sheet date assumed that the Group would not be subject to enforcement of a prolonged national lockdown but would continue to trade at a materially lower level of sales due to selected regional lockdowns alongside other national restrictions, under the UK Government's three tier alert system in England (and similar arrangements in Scotland, Wales, Northern Ireland and Germany). The forecast assumed reduced sales throughout FY 2021, building up to pre Covid-19 levels of trade by the fourth quarter of FY 2021. In addition, the forecast also includes a reduction in VAT on non-alcohol sales to April 2021 and business rate relief to April 2021.

3.2 LEASES continued

Key sources of estimation uncertainty
The impairment review of right-of-use assets requires three key sources of estimation uncertainty in calculating the value in use: the estimation of forecast cash flows for each site; the selection of an appropriate discount rate and the selection of an appropriate long-term growth rate. Both the discount rate and long-term growth rate are applied consistently to each cash-generating unit.

A sensitivity of changes in forecast cash flows, the discount rate and the long-term growth is provided on pages 124 and 125. The carrying value of assets to which these estimates apply is £402m.

Right-of-use assets

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

	Land and buildings £m	Cars £m	Total £m
Cost			
At 28 September 2019	–	–	–
Transition to IFRS 16 (see note 5.3)	527	4	531
Additions[a]	9	1	10
Disposals	(2)	–	(2)
Foreign currency movements	1	–	1
At 26 September 2020	**535**	**5**	**540**
Accumulated depreciation and impairment			
At 28 September 2019	–	–	–
Transition to IFRS 16 (see note 5.3)	(65)	–	(65)
Provided during the period	(39)	(2)	(41)
Disposals	1	–	1
Impairment	(33)	–	(33)
At 26 September 2020	**(136)**	**(2)**	**(138)**
Net book value			
At 26 September 2020	**399**	**3**	**402**
At 28 September 2019	–	–	–

a. Additions to right-of-use assets include new leases, increases in dilapidation provisions and lease extensions or rent reviews relating to existing leases.

The Group accounts for short-term leases in accordance with the recognition exemption in IFRS 16, and hence, related payments are expensed as incurred. Expenses from short-term leases amount to £1m.

Some of the property leases in which the Group is lessee contain variable lease payment terms that are linked to the revenue generated from the leased pubs. Variable payment terms are used in contracts to link rental payments to pub cash flows and reduce fixed costs. The total value of variable lease payments charged to the income statement in the current period are £1m.

Impairment review of right-of-use assets

Right-of-use assets are reviewed for impairment by comparing site recoverable amount to their carrying values. Any resulting impairment relates to sites with poor trading performance, where the output of the calculation is insufficient to justify their current net book value.

Recoverable amount is determined as being the higher of fair value or value in use. Value in use calculations use forecast trading performance cash flows, which are discounted by applying a pre-tax discount rate of 9.9% (2019 7.7%) and a long-term growth rate of 0.0% (2019 0.0%).

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

Forecast cash flows
The forecast cash flows used in the value in use calculations are site level forecasts that form the overall Group profit forecast for FY 2021, in existence at the balance sheet date. Management have determined a potential downside scenario to this forecast which assumes a longer turnaround of profit back to pre-Covid-19 levels. The use of this downside forecast results in a reduction to EBITDA of 11.2% in FY 2021 against the FY 2021 base case forecast. This would result in an approximate £1m increase in the impairment recognised.

Discount rate
The discount rate applied in the value in use calculations is the Group WACC. Over the last three financial periods, the discount rate used in impairment reviews has moved by an average of 0.9%. It is estimated that a 0.9% increase in this rate would generate an additional £4m impairment charge. Similarly it is estimated that a 0.9% decrease would reduce the impairment charge by £3m.

Long-term growth rate
Due to market uncertainty at the balance sheet date, mainly in relation to the ongoing Covid-19 pandemic, no long-term growth is included in the value in use calculations. However, should a long-term growth rate of 2.0% be applied, the impairment charge would reduce by £4m.

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

	2020 £m
Amounts payable under lease liabilities:	
Due within one year	**75**
Due between one and five years	**194**
Due after five years	**515**
Total undiscounted lease liabilities	**784**
Less: impact of discounting	**(243)**
Present value of lease liabilities	**541**
Analysed as:	
Current lease liabilities – amounts due within twelve months	**58**
Non-current lease liabilities – amounts due after twelve months	**483**
	541

Leases – Group as lessor

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

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

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

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

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

	2020 £m
Amounts receivable under finance leases	
Due within one year	**2**
Due between one and five years	**7**
Due after five years	**23**
Total undiscounted lease payments receivable	**32**
Less: unearned finance income	**(15)**
Present value of lease payments receivable	**17**
Net investment in the leases analysed as:	
Current finance lease receivables – amounts due within twelve months	**2**
Non-current finance lease receivables – amounts due after twelve months	**15**
	17

3.2 LEASES continued

The Directors of the Group estimate the loss allowance on finance lease receivables at the end of the reporting period at an amount equal to lifetime ECL. None of the finance lease receivables at the end of the reporting period is past due, and taking into account the historical default experience and the future prospects of the tenants, the Directors of the Group consider that any finance lease receivable impairment is immaterial.

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

Operating lease receivables

The Group leases a small proportion of its licensed and 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:

	2020 £m	2019 £m
Due within one year	**8**	9
Due between one and five years	**22**	27
Due after five years	**30**	52
	60	88

The total value of future minimum sub-lease rental receipts included above is £3m (2019 £39m). £nil (2019 £3m) of sub-lease income has been recognised as rental income in the Group income statement in the period.

As a result of the adoption of IFRS 16, a number of the Group's sub-leases have been reclassified from operating leases to finance leases.

3.3 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:

	2020 £m	2019 £m
Goods held for resale	**22**	26

Trade and other receivables

Accounting policy
Trade receivables are initially recognised at transaction price and other receivables are initially recognised at fair value. Subsequently, these assets are measured at amortised cost. This results in their recognition at nominal value less an allowance for any doubtful debts. The allowance for doubtful debts is recognised based on management's expectation of losses without regard to whether an impairment trigger happened or not (an 'expected credit loss' model). The Group always measures the loss allowance for trade receivables using the simplified model at an amount equal to lifetime ECL. Loss allowance for other receivables is measured either at 12 months or lifetime ECL depending on whether the credit risk has increased significantly since initial recognition (see financial assets impairment policy in note 4.4).

Trade and other receivables can be analysed as follows:

	2020 £m	2019 £m
Trade receivables	**5**	7
Other receivables	**15**	15
Coronavirus Job Retention Scheme receivable[a]	**13**	–
Prepayments	**8**	41
Total trade and other receivables	**41**	63

a. Amount due from HMRC in relation to the Coronavirus Job Retention Scheme, as described in note 2.3.

All amounts fall due within one year.

All trade, lease 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. An expected credit loss of £6m (2019 £2m) has been recognised against trade and other receivables. Of the provision, £4m (2019 £1m) relates to a gross balance of £9m (2019 £8m) for trade receivables and £2m (2019 £1m) relates to a gross balance of £5m (2019 £6m) within 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:

	2020 £m	2019 £m
Trade payables	**69**	88
Other taxation and social security	**81**	78
Accrued charges	**133**	125
Deferred income	**16**	11
Other payables	**15**	25
Total trade and other payables	**314**	327

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.

3.4 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 commitment (fixed service charges) or the operating loss after service charge costs. The provision is calculated on a site by site basis with a provision being made for the remaining committed lease term, where a lease is considered to be onerous. Other contractual dilapidations costs are also recorded as provisions as appropriate.

Before the implementation of IFRS 16 in the current period, this provision included rental costs within the net lease commitment. See note 5.3 for details of the impact of IFRS 16 in the current period.

Provisions
The provision for unavoidable losses on onerous property leases has been set up to cover fixed service charge payments of vacant or loss-making properties. Payments are expected to continue on these properties for periods of one to 102 years.

Provisions can be analysed as follows:

	Onerous property provisions £m	Dilapidation provisions £m	Total property provisions £m
At 29 September 2018	42	1	43
Released in the period	(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
Transferred to retained earnings on adoption of IFRS 16[a]	(33)	–	(33)
Provided in the period	2	1	3
Utilised in the period	(1)	–	(1)
At 26 September 2020	**3**	**2**	**5**

a. On transition to IFRS 16 a full impairment review of right-of-use assets has been completed rather than adopting the practical expedient to rely on the onerous lease provision as the assessment of impairment. As a result, provisions relating to lease rental costs are transferred to retained earnings at the start of the period (see note 5.3).

3.5 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, 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 29 September 2018	7	16	23
Additions	–	6	6
Disposals	–	(6)	(6)
At 28 September 2019	7	16	23
Additions	–	3	3
Disposals	–	(1)	(1)
At 26 September 2020	**7**	**18**	**25**
Accumulated amortisation and impairment			
At 29 September 2018	5	7	12
Provided during the period	–	3	3
Disposals	–	(6)	(6)
At 28 September 2019	5	4	9
Provided during the period	–	3	3
Disposals	–	(1)	(1)
At 26 September 2020	**5**	**6**	**11**
Net book value			
At 26 September 2020	**2**	**12**	**14**
At 28 September 2019	2	12	14
At 29 September 2018	2	9	11

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 9.9% (2019 7.7%). For the purposes of the calculation of the recoverable amount, the cash flow projections beyond the two-year period include 0.0% (2019 0.0%) growth per annum.

3.6 ASSOCIATES

Accounting policy
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 29 September 2018	5
Additions	–
At 28 September 2019	5
Share in associates results	(1)
At 26 September 2020	**4**

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

Forecast performance of the associates has been reviewed in the light of Covid-19 as both associates trade in the hospitality sector and there is the potential for a material impact on future earnings. However, as a result of site location and offer and having reviewed more recent performance post reopening in July 2020, there is no indication of a sustained deterioration of profitability and therefore no impairment has been recognised.

During a 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 26 September 2020 is £1m (2019 £1m). 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 policies
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 and form an integral part of the Group's cash management.

Net debt
Net debt comprises cash and cash equivalents, cash deposits net of borrowings and discounted lease liabilities. Net debt is presented on a constant currency basis, due to the inclusion of 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

	Note	**2020 £m**	2019 £m
Cash and cash equivalents		**173**	133
Overdraft	4.2	**(15)**	–
Cash and cash equivalents as presented in the cash flow statement[a]		**158**	133
Securitised debt	4.2	**(1,646)**	(1,752)
Term loan[b]	4.2	**(100)**	–
Unsecured revolving credit facility	4.2	**(10)**	–
Liquidity facility	4.2	**(9)**	–
Derivatives hedging securitised debt[c]	4.2	**44**	55
Net debt excluding leases		**(1,563)**	(1,564)
Lease liabilities		**(541)**	–
Net debt including leases		**(2,104)**	(1,564)

a. Cash and cash equivalents, in the cash flow statement, are presented net of an overdraft within a cash pooling arrangement, to which the Group has a legal right of offset.
b. The term loan is a drawing under a facility that is backed by the Coronavirus Large Business Interruption Loan Scheme. Further details provided in note 4.2.
c. 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 excluding leases

	2020 52 weeks £m	2019 52 weeks £m
Net increase in cash and cash equivalents	**24**	11
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	**95**	87
Drawdown of term loan (note 4.2)	**(100)**	–
Drawdown on unsecured revolving credit facilities	**(10)**	–
(Drawdown)/repayment of liquidity facility	**(9)**	147
Decrease in net debt arising from cash flows	**–**	125
Movement in capitalised debt issue costs net of accrued interest	**–**	(1)
Decrease in net debt excluding leases	**–**	124
Opening net debt excluding leases	**(1,564)**	(1,688)
Foreign exchange movements on cash	**1**	
Closing net debt excluding leases	**(1,563)**	(1,564)

4.1 NET DEBT continued

Movement in lease liabilities:

	2020 52 weeks £m
Opening lease liabilities	**–**
Transition to IFRS 16 (see note 5.3)	**(545)**
Additions[a]	**(10)**
Interest charged during the period	**(17)**
Repayment of principal and interest	**30**
Disposals	**2**
Foreign currency movements	**(1)**
Closing lease liabilities	**(541)**

a. Additions to lease liabilities include new leases and lease extensions or rent reviews relating to existing leases.

The movement in net debt including leases for the 52 weeks ended 26 September 2020 is represented by:

	At 28 September 2019 £m	IFRS 16 transition[a] £m	Cash flow movements in the period £m	Non-cash movements in the period £m	Foreign currency movements £m	At 26 September 2020 £m
Securitised debt	(1,752)	–	95	–	11	**(1,646)**
Liquidity facility	–	–	(9)	–	–	**(9)**
Derivatives hedging securitised debt	55	–	–	–	(11)	**44**
Term loan	–	–	(100)	–	–	**(100)**
Revolving credit facilities	–	–	(10)	–	–	**(10)**
Lease liabilities[b]	–	(545)	30	(25)	(1)	**(541)**
Total liabilities arising from financing activities	(1,697)	(545)	6	(25)	(1)	**(2,262)**
Cash and cash equivalents	133	–	24	–	1	**158**
Net debt including leases	(1,564)	(545)	30	(25)	–	**(2,104)**

a. During the period, the Group has adopted IFRS 16 which requires lease liabilities and corresponding right-of-use assets to be recognised on the balance sheet. See notes 1 and 5.3 for details of the transitional impact.
b. Cash movements of £30m relate to £22m repayment of principal on lease liabilities and £8m of interest paid on lease liabilities.

The movement in net debt 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)

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:

	2020 £m	2019 £m
Current		
Securitised debt[a,b]	**104**	95
Term loan[c]	**100**	–
Liquidity facility	**9**	–
Unsecured revolving credit facilities	**10**	–
Overdraft[d]	**15**	–
Total current	**238**	95
Non-current		
Securitised debt[a,b]	**1,542**	1,657
Total borrowings	**1,780**	1,752

a. Further details of the assets pledged as security against the securitised debt are given on page 120.
b. Stated net of deferred issue costs.
c. The term loan is a drawing under a facility that is backed by the Coronavirus Large Business Interruption Loan Scheme. Further details provided below.
d. The overdraft is within a cash pooling arrangement. In the cash flow statement, cash and cash equivalents are presented net of this overdraft (see note 4.1).

	2020 £m	2019 £m
Analysis by year of repayment		
Due within one year or on demand	**238**	95
Due between one and two years	**152**	158
Due between two and five years	**369**	347
Due after five years	**1,021**	1,152
Total borrowings	**1,780**	1,752

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. 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 ten tranches as follows:

Tranche	Initial principal borrowed £m	Interest	Principal repayment period (all by instalments)	Effective interest rate %	Principal outstanding: 26 September 2020 £m	Principal outstanding: 28 September 2019 £m	Expected WAL[a]
A1N	200	Floating	2011 to 2028	6.61[b]	**110**	121	4 years
A2	550	Fixed–5.57%	2003 to 2028	5.72	**201**	220	4 years
A3N	250	Floating	2011 to 2028	6.69[b]	**138[c]**	152[c]	4 years
A4	170	Floating	2016 to 2028	6.37[b]	**128**	139	5 years
AB	325	Floating	2020 to 2032	6.28[b]	**318**	325	8 years
B1	350	Fixed–5.97%	2003 to 2023	6.12	**66**	84	2 years
B2	350	Fixed–6.01%	2015 to 2028	6.12	**282**	297	5 years
C1	200	Fixed–6.47%	2029 to 2030	6.56	**200**	200	9 years
C2	50	Floating	2033 to 2034	6.47[b]	**50**	50	13 years
D1	110	Floating	2034 to 2036	6.68[b]	**110**	110	15 years
	2,555				**1,603**	1,698	

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 £182m (2019 £207m). Therefore the exchange difference on the A3N notes is £44m (2019 £55m).

4.2 BORROWINGS continued

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 6.3% (2019 6.2%) after taking account of interest rate hedging and the cost of the financial guarantee provided by Ambac Assurance UK Limited (Ambac). Ambac acts as a guarantor of the Group's obligations to repay interest and principal on the loan notes. In the event that the Group is unable to pay such amounts the guarantee is limited to the Class A1N, A3N, A4 and Class AB note holders only. During the period an agreement was reached to remove the guarantee from the Class A2 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.

During the period, and as a result of the Covid-19 pandemic, material trading restrictions were imposed on the Group and the sector, including mandated closure for over three months. Mitigating action was swiftly taken and this included agreeing revised arrangements in the secured financing structure with the consent of the controlling creditor of the securitisation and the securitisation trustee. As a result a series of amendments and waivers to the securitisation covenants was obtained. Further details of these are provided in the going concern review on pages 104 and 105.

At 26 September 2020, Mitchells & Butlers Retail Limited had cash and cash equivalents of £63m (2019 £61m). Of this amount £1m (2019 £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:

	2020 £m	2019 £m
Principal outstanding at beginning of period	**1,753**	1,832
Principal repaid during the period	**(95)**	(87)
Exchange on translation of dollar loan notes	**(11)**	8
Principal outstanding at end of period	**1,647**	1,753
Deferred issue costs	**(4)**	(4)
Accrued interest	**3**	3
Carrying value at end of period	**1,646**	1,752

Liquidity facility

Under the terms of the securitisation, the Group holds a liquidity facility of £295m provided by two counterparties.

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

During the current period, as a result of the Covid-19 pandemic, the Group obtained a waiver to facilitate drawings of up to £100m in total under the liquidity facility providing the Group with additional facilities in order to meet payments of principal and interest, provided such drawings are repaid in full by 15 March 2021. Amounts of £47m have been drawn during the period, of which £38m have been repaid. The amount drawn at 26 September 2020 is £9m (2019 £nil). Further details of the covenant waivers and amendments obtained are provided within the going concern review on pages 104 and 105.

Unsecured revolving credit facilities

The Group holds three unsecured committed revolving credit facilities of £50m each, and uncommitted revolving credit facilities of £5m, available for general corporate purposes. These facilities expire on 31 December 2021. The amount drawn at 26 September 2020 is £10m (2019 £nil).

Term loan backed by the Coronavirus Large Business Interruption Loan Scheme

In June 2020, the Group entered into two new facilities of £50m each backed by the UK Government Coronavirus Large Business Interruption Loan Scheme. These facilities also expire on 31 December 2021. The amount drawn at 26 September 2020 is £100m (2019 £nil).

4.3 FINANCE COSTS AND REVENUE

	2020 52 weeks £m	2019 52 weeks £m
Finance costs		
Interest on securitised debt	**(105)**	(109)
Interest on other borrowings	**(6)**	(4)
Interest on lease liabilities	**(17)**	–
Unwinding of discount on provisions (note 3.4)	**–**	(1)
Total finance costs	**(128)**	(114)
Finance income		
Interest receivable – cash	**1**	1
Net pensions finance charge (note 4.5)	**(4)**	(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 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 finance lease 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 twelve-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, twelve-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within twelve 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).

4.4 FINANCIAL INSTRUMENTS continued

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 twelve-month ECL at the current reporting date, except for assets for which 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 twelve months and it is not expected to be realised or settled within twelve months. Other derivatives are presented as current assets or current liabilities.

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. 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.

4.4 FINANCIAL INSTRUMENTS continued

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 and two unsecured facilities backed by the Government Coronavirus Large Business Interruption Loan Scheme of £50m each. The terms of the securitisation and the revolving credit facilities contain various financial covenants. Details of covenant amendments and waivers obtained as a result of the Covid-19 pandemic to mitigate the risk to liquidity are provided in the going concern review on pages 104 and 105. Compliance with these covenants is monitored by Group Treasury. The Group also has uncommitted credit facilities of £5m.

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 (which are settled gross) 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
26 September 2020							
Securitised debt – loan notes	**(166)**	**(168)**	**(171)**	**(173)**	**(175)**	**(1,172)**	**(2,025)**
Derivative financial liabilities (settled net)	**(40)**	**(37)**	**(35)**	**(32)**	**(29)**	**(135)**	**(308)**
Derivative financial asset receipts	**19**	**20**	**21**	**21**	**22**	**79**	**182**
Derivative financial asset payments	**(15)**	**(15)**	**(16)**	**(17)**	**(17)**	**(60)**	**(140)**
Fixed rate: Securitised debt	**(202)**	**(200)**	**(201)**	**(201)**	**(199)**	**(1,288)**	**(2,289)**
Floating rate: Liquidity facility	**(9)**	**–**	**–**	**–**	**–**	**–**	**(9)**
Floating rate: Revolving credit facilities	**(10)**	**–**	**–**	**–**	**–**	**–**	**(10)**
Term loan	**(100)**	**–**	**–**	**–**	**–**	**–**	**(100)**
Lease liabilities	**(75)**	**(54)**	**(59)**	**(38)**	**(43)**	**(515)**	**(784)**
Trade payables	**(69)**	**–**	**–**	**–**	**–**	**–**	**(69)**
Other payables	**(15)**	**–**	**–**	**–**	**–**	**–**	**(15)**
Accrued charges	**(133)**	**–**	**–**	**–**	**–**	**–**	**(133)**
28 September 2019							
Securitised debt – loan notes	(167)	(166)	(168)	(171)	(173)	(1,347)	(2,192)
Derivative financial liabilities (settled net)	(38)	(40)	(37)	(35)	(32)	(164)	(346)
Derivative financial asset receipts	21	19	19	21	21	101	202
Derivative financial asset payments	(14)	(14)	(15)	(15)	(16)	(77)	(151)
Fixed rate: Securitised debt	(198)	(201)	(201)	(200)	(200)	(1,487)	(2,487)
Trade payables	(88)	–	–	–	–	–	(88)
Other payables	(25)	–	–	–	–	–	(25)
Accrued charges	(125)	–	–	–	–	–	(125)

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.

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 ordinarily 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. As a result of the Covid-19 pandemic, credit risk has increased in relation to trade receivables due to trading restrictions imposed on tenants. An additional expected credit loss allowance has therefore been recognised on trade receivables (see note 3.3).

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

	FVTPL £m	12 month ECL £m	Lifetime ECL £m	Total £m
26 September 2020:				
Cash and cash equivalents	**–**	**158**	**–**	**158**
Trade receivables[a]	**–**	**–**	**5**	**5**
Other receivables[a]	**–**	**15**	**–**	**15**
Finance lease receivables[b]	**–**	**–**	**17**	**17**
Derivatives	**45**	**–**	**–**	**45**
28 September 2019:				
Cash and cash equivalents	–	133	–	133
Trade receivables[a]	–	–	7	7
Other receivables[a]	–	15	–	15
Derivatives	56	–	–	56

a. Trade receivables and other receivables are shown net of an expected credit loss allowance, as shown in note 3.3.
b. Finance lease receivables expected credit loss allowance is immaterial, as described in note 3.2.

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 period, 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. Further details of the impact of Covid-19 on the capital management of the Group are provided in the going concern review on pages 104 and 105.

Total capital at the balance sheet date is as follows:

	2020 £m	2019 £m
Net debt (note 4.1)	**1,563**	1,564
Total equity	**1,677**	1,947
Total capital	**3,240**	3,511

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 £182m (2019 £207m) 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 (2019 £nil) impact on the reported Group profit and £18m (2019 £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 £1.6bn 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.

4.4 FINANCIAL INSTRUMENTS continued

A number of the Group's financial instruments have LIBOR as their reference rate. There is a current expectation that LIBOR will cease to be published from the end of 2021. As described in section 1, the Group continues to monitor the situation and expects to transition financial instruments to replacement benchmark rates as appropriate.

In the current period, the interest rate exposure has increased as a result of the new floating rate term loan (see note 4.2). This is consistent with the Group Treasury policy on interest rate management.

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:

	2020 £m	2019 £m
Interest income[a]	**1**	1
Interest expense[b]	**(2)**	–
Profit impact	**(1)**	1
Derivative financial instruments (fair values)[c]	**64**	72
Total equity	**63**	73

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:

	2020 52 weeks £m	2019 52 weeks £m
Losses arising during the period	**(43)**	(81)
Reclassification adjustments for losses included in profit or loss within finance costs	**48**	23
	5	(58)

Cash flow hedges – securitised borrowings

At 26 September 2020, the Group held ten (2019 ten) interest rate swap contracts with a nominal value of £855m (2019 £897m), designated as a hedge of the cash flow interest rate risk of £855m (2019 £897m) 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 4.8316% (2019 4.8399%). The contract maturity dates match those of the hedged item. The ten interest rate swaps are held on the Group balance sheet at fair value, which is a liability of £293m (2019 £302m). No hedge ineffectiveness on the interest rate swaps was recognised in profit or loss in the current or prior period.

At 26 September 2020 the Group held one (2019 one) cross currency interest rate swap contract, with a nominal value of £138m (2019 £152m), designated as a hedge of the cash flow interest rate and currency risk of the Group's US$ denominated A3N floating rate $231m (2019 $254m) notes. The cross currency interest rate swap is held on the Group balance sheet at a fair value asset of £44m (2019 £55m).

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 ineffectiveness on the cross currency swaps due to foreign currency basis spread was immaterial in both the current and prior period.

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. In the event of default, the interest rate swaps and cross currency swaps may be settled net, giving a net liability of £253m (2019 £247m).

Share options

During a 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 3.6). 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 26 September 2020 is £1m (2019 £1m). This is 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 26 September 2020 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	**–**	**–**	**(40)**	**(257)**	**(297)**
– Cross currency swap	**44**	**–**	**–**	**–**	**44**
Share options at FVTPL	**1**	**–**	**–**	**–**	**1**
26 September 2020	**45**	**–**	**(40)**	**(257)**	**(252)**
28 September 2019	53	3	(36)	(266)	(246)

Reconciliation of movements in derivative values

The tables below detail 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 26 September 2020 are represented by:

	At 28 September 2019 £m	**Cash movements £m**	**Fair value movements £m**	**At 26 September 2020 £m**
Cash flow hedges	**(247)**	**37**	**(43)**	**(253)**
Share options	**1**	**–**	**–**	**1**
Total derivatives	**(246)**	**37**	**(43)**	**(252)**

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

Fair value of financial assets and liabilities

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

	2020		2019	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Financial assets at amortised cost:				
– Cash and cash equivalents	**158**	**158**	133	133
– Trade receivables	**5**	**5**	7	7
– Other receivables	**24**	**24**	15	15
– Finance lease receivables	**17**	**17**	–	–
	204	**204**	155	155
Financial assets – derivatives at FVTPL:				
– Derivative instruments in designated hedge accounting relationships	**44**	**44**	55	55
– Share options	**1**	**1**	1	1
	45	**45**	56	56
Financial liabilities at amortised cost:				
– Borrowings (note 4.2)	**(1,780)**	**(1,584)**	(1,752)	(1,695)
– Lease liabilities	**(541)**	**(541)**	–	–
– Trade payables	**(69)**	**(69)**	(88)	(88)
– Accrued charges	**(133)**	**(133)**	(125)	(125)
– Other payables	**(15)**	**(15)**	(25)	(25)
	(2,554)	**(2,358)**	(1,990)	(1,933)
Financial liabilities – derivatives at FVTPL:				
– Derivative instruments in designated hedge accounting relationships	**(297)**	**(297)**	(302)	(302)

4.4 FINANCIAL INSTRUMENTS continued

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. 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 26 September 2020	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets:				
Currency swaps	**–**	**44**	**–**	**44**
Share options (see note 3.6)	**–**	**–**	**1**	**1**
Financial liabilities:				
Interest rate swaps	**–**	**(297)**	**–**	**(297)**
	–	**(253)**	**1**	**(252)**

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 (see note 3.6)	–	–	1	1
Financial liabilities:				
Interest rate swaps	–	(302)	–	(302)
	–	(247)	1	(246)

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 liabilities 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 liabilities. As such, the total pension liabilities 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 liabilities. Actuarial liabilities are the present value of the defined benefit obligation, less the fair value of the schemes' 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 schemes are recognised within operating costs in the income statement.

Remeasurement comprising actuarial gains and losses, the effect of minimum funding requirements, and the return on schemes' 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 plans 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 liabilities 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 26 September 2020. Schemes' assets are stated at market value at 26 September 2020 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 schemes' 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 2021. 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 26 September 2020 is 2.5%. 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 £69m. However (under IFRIC 14) additional liabilities are 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.

4.5 PENSIONS continued

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

	Main plan 2020	Executive plan 2020	Main plan 2019	Executive plan 2019
Discount rate[a]	**1.6%**	**1.6%**	1.8%	1.8%
Pensions increases – RPI max 5%	**2.8%**	**2.8%**	3.0%	3.0%
Inflation rate – RPI	**2.9%**	**2.9%**	3.1%	3.1%

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.

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

	2020		2019	
	Main plan years	Executive plan years	Main plan years	Executive plan years
Male member aged 65 (current life expectancy)	**20.9**	**23.4**	20.9	23.4
Male member aged 45 (life expectancy at 65)	**22.7**	**24.5**	22.7	24.5
Female member aged 65 (current life expectancy)	**23.2**	**24.3**	23.2	24.3
Female member aged 45 (life expectancy at 65)	**25.3**	**26.3**	25.3	26.3

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). Following the outbreak of the Covid-19 pandemic and the enforced temporary closure of the business at the end of March 2020, the Company agreed with the Trustee that contributions would be suspended for the months of April to September 2020, with these being added onto the end of the agreed recovery plan so that these contributions will be paid during the second half of FY 2023.

Under IFRIC 14, additional liabilities are recognised, such that the overall pension liabilities at the period end reflects the schedule of contributions in relation to the minimum funding requirements, should this be higher than the actuarial deficit.

The employer contributions expected to be paid during the financial period ending 25 September 2021 amount to £51m.

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 liabilities 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.

2020	**Increase/(decrease) in actuarial surplus 2020 £m**	**Decrease/(increase) in total pension liabilities 2020 £m**
0.5% increase in discount rate	**209**	**5**
0.1% increase in inflation rate	**(40)**	**–**
Additional one-year decrease to life expectancy	**91**	**2**

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

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 liabilities 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 plans' 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	2020 52 weeks £m	2019 52 weeks £m
Operating profit:		
Employer contributions (defined contribution plans) (note 2.3)	**(13)**	(12)
Administrative costs (defined benefit plans)	**(2)**	(3)
Charge to operating profit before separately disclosed items	**(15)**	(15)
Past service cost (note 2.2)	**–**	(19)
Charge to operating profit	**(15)**	(34)
Finance costs:		
Net pensions finance income on actuarial surplus	**5**	10
Additional pensions finance charge due to minimum funding	**(9)**	(17)
Net finance charge in respect of pensions	**(4)**	(7)
Total charge	**(19)**	(41)

Group statement of comprehensive income	2020 52 weeks £m	2019 52 weeks £m
Return on scheme assets and effects of changes in assumptions	**(22)**	(77)
Movement in pension liabilities recognised due to minimum funding	**25**	92
Remeasurement of pension liabilities	**3**	15

Group balance sheet	2020 £m	2019 £m
Fair value of schemes' assets	**2,736**	2,739
Present value of schemes' liabilities	**(2,434)**	(2,443)
Actuarial surplus in the schemes	**302**	296
Additional liabilities recognised due to minimum funding	**(495)**	(511)
Total pension liabilities[a]	**(193)**	(215)
Associated deferred tax asset (note 2.4)	**36**	36

a. The total pension liabilities of £193m (2019 £215m) are presented as a £51m current liability (2019 £50m) and a £142m non-current liability (2019 £165m).

4.5 PENSIONS continued

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

	Schemes' assets	
	2020 £m	2019 £m
Fair value of schemes' assets at beginning of period	**2,739**	2,404
Interest income	**48**	69
Remeasurement gain:		
– Return on schemes' assets (excluding amounts included in net finance charge)	**33**	312
Additional employer contributions	**25**	49
Benefits paid	**(107)**	(92)
Administration costs	**(2)**	(3)
At end of period	**2,736**	2,739

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

	Defined benefit obligation	
	2020 £m	2019 £m
Present value of defined benefit obligation at beginning of period	**(2,443)**	(2,068)
Interest cost	**(43)**	(59)
Past service cost	**–**	(19)
Benefits paid	**107**	92
Remeasurement losses:		
– Effect of changes in demographic assumptions	**–**	26
– Effect of changes in financial assumptions	**(26)**	(420)
– Effect of experience adjustments	**(29)**	5
At end of period[a]	**(2,434)**	(2,443)

a. The defined benefit obligation comprises £39m (2019 £38m) relating to the MABETUS unfunded plan and £2,395m (2019 £2,405m) relating to the funded plans.

The weighted average duration of the defined benefit obligation is 19 years (2019 19 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:

	2020 £m	2019 £m
Cash and equivalents	**22**	109
Equity instruments	**548**	502
Debt instruments:		
– Bonds	**2,517**	2,481
– Real estate debt	**71**	75
– Infrastructure debt	**128**	118
– Secured income debt	**152**	158
– Absolute return bond funds	**259**	233
– Gilt repurchase transactions	**(982)**	(950)
Gold	**11**	8
Forward foreign exchange contracts	**10**	5
Fair value of assets	**2,736**	2,739

The actual investment return achieved on schemes' assets over the period was 3.2% (2019 16.0%), which represented a gain of £86m (2019 £381m).

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, infrastructure debt and secured income debt are classified as Level 3 instruments.

In the 52 weeks ended 26 September 2020 the Group paid £13m (2019 £11m) in respect of the defined contribution arrangements, with an additional £3m (2019 £3m) outstanding as at the period end.

At 26 September 2020 the MABPP owed £nil (2019 £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 £2m (2019 £3m).

The Group had four equity-settled share schemes (2019 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 74 to 89.

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

	2020 Performance Restricted Share Plan	2019 Performance Restricted Share Plan
Valuation model	**Monte Carlo and Binomial**	Monte Carlo and Binomial
Weighted average share price	**467.0p**	272.4p
Exercise price[a]	**–**	–
Expected dividend yield[b]	**–**	–
Risk-free interest rate	**0.40%**	0.79%
Volatility[c]	**29.2%**	31.4%
Expected life (years)[d]	**2.8**	3.0
Weighted average fair value of grants during the period	**408.8p**	240.3p

a. The exercise price for the Performance Restricted Share Plan is £1 per participating employee.
b. 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 Short Term Deferred Incentive Plan during the period was 466.9p (2019 272.4p). There were no awards under the Share Incentive Plan or the Sharesave Plan in the current period. The fair value of options granted under the Share Incentive Plan during the prior period was 281.5p.

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

	Number of shares		Weighted average exercise price	
Sharesave Plan	**2020 m**	2019 m	**2020 p**	2019 p
Outstanding at the beginning of the period	**5.0**	4.1	**244.0**	256.0
Granted	**–**	2.0	**–**	242.0
Exercised	**(0.6)**	–	**270.0**	230.9
Forfeited	**(0.9)**	(0.7)	**239.8**	246.2
Expired	**(0.1)**	(0.4)	**270.9**	348.0
Outstanding at the end of the period	**3.4**	5.0	**239.9**	244.0
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 (2019 between 221.0p and 362.0p) and the weighted average remaining contract life was 2.1 years (2019 2.8 years). The number of forfeited shares in the period includes 581,665 (2019 400,999) cancellations.

SAYE options were exercised on a range of dates. The average share price through the period was 283.0p (2019 284.4p).

4.6 SHARE-BASED PAYMENTS continued

Share Incentive Plan	Number of shares 2020 m	2019 m
Outstanding at the beginning of the period	**1.9**	1.8
Granted	**–**	0.4
Exercised	**(0.1)**	(0.2)
Forfeited	**–**	(0.1)
Outstanding at the end of the period	**1.8**	1.9
Exercisable at the end of the period	**–**	0.9

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

Performance Restricted Share Plan	Number of shares 2020 m	2019 m
Outstanding at the beginning of the period	**6.2**	6.1
Granted	**1.3**	2.1
Exercised	**(0.9)**	–
Forfeited	**(0.1)**	(0.1)
Expired	**(0.9)**	(1.9)
Outstanding at the end of the period	**5.6**	6.2
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 (2019 £nil).

Options outstanding at 26 September 2020 had an exercise price of £nil and a weighted average remaining contractual life of 3.0 years (2019 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	2020 Number of shares	£m	2019 Number of shares	£m
Allotted, called up and fully paid				
Ordinary shares of 8 13/24p each				
At start of period	**428,577,760**	**37**	428,310,823	37
Share capital issued[a]	**623,357**	**–**	266,937	–
At end of period	**429,201,117**	**37**	428,577,760	37

a. The Company issued 623,357 (2019 266,937) shares during the period under share option schemes for a consideration of £nil (2019 £nil). 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
There were no dividends declared or paid during the current period.

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 £2m (2019 £nil) has been recognised on shares issued in the period.

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 750,000 shares at a cost of £3m (2019 900,000 shares at a cost of £3m) and subscribed for no shares (2019 257,587) at a cost of £nil (2019 £nil). The employee share trusts released 1,078,350 (2019 226,936) shares to employees on the exercise of options and other share awards for a total consideration of £nil (2019 £nil). The 2,487,431 shares held by the trusts at 26 September 2020 had a market value of £3m (2019 2,815,781 shares held had a market value of £11m).

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 26 September 2020, the trustees, Equiniti Share Plan Trustees Limited, held 1,768,611 (2019 1,904,568) shares in the Company. Of these shares, 604,404 (2019 577,636) shares are unconditionally available to employees, 479,097 (2019 315,333) shares have been conditionally awarded to employees, 607,225 (2019 987,565) shares have been awarded to employees but are still required to be held within the SIP Trust and the remaining 77,885 (2019 24,034) 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 26 September 2020, the trustees, Sanne Fiduciary Services Limited, were holding 718,820 (2019 911,213) 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 £2,226m at 26 September 2020 (2019 £2,313m). 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:

	2020 52 weeks £m	2019 52 weeks £m
Short-term employee benefits	**3**	5

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.

The Group has entered into the following transactions with the associates:

	3Sixty Restaurants Limited		Fatboy Pub Company Limited	
	2020 52 weeks £000	2019 52 weeks £000	**2020 52 weeks £000**	2019 52 weeks £000
Rent charged	**719**	372	**50**	75
Sales of goods and services	**521**	646	**4**	4
Loans	**–**	–	**4**	175
	1,240	1,018	**58**	254

The balance due from 3Sixty Restaurants Limited at 26 September 2020 was £385,000 (2019 £102,000).

The balance due from Fatboy Pub Company at 26 September 2020 was £11,000 (2019 £186,000), net of a provision of £179,000 (2019 £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[b]	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
Miller & Carter Gaststätten Betriebsgesellschaft mbH	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 26 September 2020 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.

5.2 SUBSIDIARIES AND ASSOCIATES continued

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 ADOPTION OF IFRS 16 LEASES

The Group has initially adopted IFRS 16 Leases from 29 September 2019. The impact of the adoption on the opening balance sheet at 29 September 2019 is described in note 1 and below.

Impact of IFRS 16 on the financial statements

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured in accordance with the policy set out in note 1, using the Group's incremental borrowing rate as at 29 September 2019. Right-of-use assets were measured at an amount equal to the corresponding lease liability, adjusted for any prepaid lease payments, lease incentives, expected dilapidations and lease premiums.

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

	£m
Total operating lease commitments at 28 September 2019	678
Reconciling items:	
– Short term leases	(1)
– Lease commitments for periods post break clauses	120
– Assumed lease extensions	4
Operating lease liabilities before discounting	801
Impact of discounting using incremental borrowing rate[a]	(256)
Total lease liabilities recognised under IFRS 16 at 29 September 2019	545

a. The weighted average incremental borrowing rate used to calculate lease liabilities at the transition date was 3.5%.

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	545
Reconciling items:	
– Lease premiums	1
– Lease incentives	(9)
– Lease prepayments	13
– Dilapidations costs	1
– Impairment recognised on right-of-use assets	(65)
– Sub-leases derecognised and recognised as finance lease receivables	(20)
Total right-of-use assets recognised under IFRS 16 at 29 September 2019	466

Balance sheet

The impact on the opening balance sheet is summarised below:

	Closing balance sheet at 28 September 2019 £m	IFRS 16 impact £m	Opening balance sheet at 29 September 2019 £m
Lease premiums	1	(1)	–
Right-of-use assets	–	466	466
Finance lease receivables – non-current	–	17	17
Deferred tax asset	66	5	71
Finance lease receivables – current	–	2	2
Trade and other receivables	63	(13)	50
Trade and other payables	(327)	12	(315)
Lease liabilities – current	–	(29)	(29)
Lease liabilities – non-current	–	(516)	(516)
Provisions	(36)	33	(3)
Retained earnings	854	(24)	830

a. Movement in the opening balance of retained earnings represents the impairment review of £65m on right-of-use assets and £1m on lease receivables, offset by the reversal of onerous lease provision of £33m, rent review accruals no longer required under IFRS 16 of £3m, dilapidations on the right-of-use assets already charged through the income statement of £1m, and an increase of £5m to the deferred tax asset.

Income statement
The Group has recognised depreciation and interest costs in the income statement, rather than rental charges for those leases that were previously classified as operating leases. During the 52 weeks ended 26 September 2020, the Group recognised £41m of depreciation charges and £17m of interest costs in respect of these leases. In addition, the Group has recognised an impairment of £33m as a separately disclosed item for the 52 weeks ended 26 September 2020.

Cash flow statement
Whilst the implementation of IFRS 16 has no impact on cash flow, there is a requirement to present lease payments split between principal and interest as shown in the cash flow statement.

5.4 POST BALANCE SHEET EVENTS

UK Government Covid-19 announcements
On 31 October 2020, the UK Government announced a second national lockdown to be effective in England from 5 November 2020 to 2 December 2020. This resulted in mandatory closure of all of the Group's trading sites in England on 5 November 2020. The impact of this has been included in the going concern assessment on pages 104 and 105.

However, the revaluation of freehold and long leasehold properties, the impairment review of property, plant and equipment and the impairment review of right-of-use assets were performed using known conditions at the balance sheet date. As such, the forecast profits for FY 2021 did not include the impact of a second national lockdown on forecast sales and the expected further reduction in trade rebuild.

The estimated impact of this is as follows.

Property, plant and equipment (note 3.1)
Revaluation of freehold and long leasehold properties
A revised site level forecast, that forms the basis of the FY 2021 Group forecast used in the going concern assessment, has been applied to determine a revised income shortfall for FY 2021.

The impact of this would have been a reduction in the value of freehold and long leasehold properties of £42m. This would constitute an additional impairment charge of £11m in the income statement and £31m revaluation loss in other comprehensive income.

Impairment review of tenant's fixtures and fittings and short leasehold and unlicensed properties
A revised site level forecast, that forms the basis of the FY 2021 Group forecast used in the going concern assessment, has been applied to determine revised value in use calculations.

The impact of this would have been an additional impairment charge of £1m.

Leases (note 3.2)
Impairment review of right-of-use assets
A revised site level forecast, that forms the basis of the FY 2021 Group forecast used in the going concern assessment, has been applied to determine revised value in use calculations.

The impact of this would have been an additional impairment charge of £2m.

Pensions (note 4.5)
Defined benefit pension schemes – GMP equalisation
On 20 November 2020, the High Court ruled that pension schemes will need to revisit individual transfer payments made since 17 May 1990 to check if any additional value is due as a result of GMP equalisation. This latest judgement follows on from the ruling regarding guaranteed minimum pensions (GMP) on 26 October 2018 and requires that schemes make a top-up payment to any member who exercised their statutory right to transfer benefits to an alternative scheme. The top-up payment should be the shortfall between the original transfer payment and what would have been paid if benefits had been equalised at the time, with interest in line with bank base rate plus 1% each year.

This ruling will impact the Group's actuarial surplus, as it will lead to an increase in obligations, however it should be noted that due to the recognition of an additional liability in relation to minimum funding, there will be no change to the reported pension liability in the balance sheet.

Given the date of the ruling and complexity of application, it is not currently practical to estimate the impact on the actuarial surplus and income statement.

5.5 FIVE YEAR REVIEW

	2020 52 weeks £m	2019 52 weeks £m	2018 52 weeks £m	2017 53 weeks £m	2016 52 weeks £m
Revenue	**1,475**	2,237	2,152	2,180	2,086
Operating profit before separately disclosed items	**99**	317	303	314	318
Separately disclosed items	**(91)**	(20)	(48)	(106)	(87)
Operating profit	**8**	297	255	208	231
Finance costs	**(128)**	(114)	(119)	(125)	(126)
Finance income	**1**	1	1	1	1
Net pensions finance charge	**(4)**	(7)	(7)	(7)	(12)
(Loss)/profit before taxation	**(123)**	177	130	77	94
Tax credit/(charge)	**11**	(34)	(26)	(14)	(5)
(Loss)/profit for the period	**(112)**	143	104	63	89
(Loss)/earnings) per share					
Basic	**(26.2)p**	33.5p	24.5p	15.1p	21.6p
Diluted	**(26.1)p**	33.3p	24.4p	15.0p	21.6p
Adjusted (Basic)[a]	**(6.3)p**	37.2p	34.1p	34.9p	34.9p

a. Adjusted (loss)/earnings per share is stated after removing the impact of separately disclosed items as explained in note 2.2.

COMPANY BALANCE SHEET

26 September 2020

	Notes	2020 £m	2019 (restated*) £m
Non-current assets			
Investments in subsidiaries	5	**1,521**	1,474
Amounts owed by subsidiary undertakings	6	**379**	480
Deferred tax asset	9	**40**	41
		1,940	1,995
Current assets			
Trade and other receivables	6	**81**	193
Current tax asset		**1**	–
Cash and cash equivalents		**63**	36
		145	229
Current liabilities			
Pension liabilities	4	**(51)**	(50)
Borrowings	8	**(15)**	(8)
Trade and other payables	7	**(283)**	(284)
		(349)	(342)
Non-current liabilities			
Pension liabilities	4	**(142)**	(165)
Net assets		**1,594**	1,717
Equity			
Called up share capital	10	**37**	37
Share premium account		**28**	26
Capital redemption reserve		**3**	3
Own shares held		**(3)**	(4)
Retained earnings		**1,529**	1,655
Total equity		**1,594**	1,717

* Amounts owed by subsidiary undertakings have been reclassified from current to non-current assets. See note 1.

The Company reported a loss for the 52 weeks ended 26 September 2020 of £136m (52 weeks ended 28 September 2019 loss of £6m).

The Company financial statements were approved by the Board and authorised for issue on 25 November 2020.

They were signed on its behalf by:

TIM JONES
Chief Financial Officer

The accounting policies and the notes on pages 157 to 160 form an integral part of these Company financial statements.

Registered Number: 04551498

COMPANY STATEMENT OF CHANGES IN EQUITY

For the 52 weeks ended 26 September 2020

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares held £m	Retained earnings £m	Total equity £m
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
Loss after taxation	–	–	–	–	(136)	(136)
Remeasurement of pension liability	–	–	–	–	3	3
Deferred tax on remeasurement of pension liability	–	–	–	–	8	8
Total comprehensive expense	–	–	–	–	(125)	(125)
Share capital issued	–	2	–	–	–	2
Purchase of own shares	–	–	–	(2)	–	(2)
Release of own shares	–	–	–	3	(3)	–
Credit in respect of employee share schemes	–	–	–	–	2	2
At 26 September 2020	**37**	**28**	**3**	**(3)**	**1,529**	**1,594**

Details of each reserve are provided in note 4.7 to the consolidated financial statements.

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 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 2019, as described in section 1 of the consolidated financial statements. Their adoption has not had any material impact on the disclosures or on the amounts reported in these Company financial statements.

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 judgements of the Company are: 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; the recognition of deferred tax assets as described in note 2.4 of the consolidated financial statements; and the assessment of expected credit loss on amounts owed by subsidiary undertakings as described in note 6. The key sources of estimation uncertainty in the current period are the estimates of future cash flows and selection of a discount rate for the investment impairment review described in note 5 and the estimation of future taxable profits for the recognition of deferred tax assets as described in note 2.4 of the consolidated financial statements.

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.

Restatement

During the current period, amounts of £480m owed by subsidiary undertakings have been reclassified from current assets to non-current assets. These amounts are described as repayable on demand, however, the Company does not expect the amounts to be settled within the next twelve months, and as such IAS 1 requires the assets to be disclosed as non-current. The amounts are shown within note 6.

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 £136m (2019 loss of £6m), less dividends of £nil (2019 £nil).

Audit remuneration

Auditor's remuneration for audit services to the Company was £30,000 (2019 £30,000). 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

	2020 52 weeks	2019 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 74 to 89. The charge recognised for share-based payments in the period is £nil (2019 £1m).

4. PENSIONS

Accounting policy

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

Pension liability

At 26 September 2020 the Company's pension liability was £193m (2019 £215m). Of this amount, £51m (2019 £50m) is a current liability and £142m (2019 £165m) 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 143 to 146.

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. The value of these investments are reviewed annually for impairment by comparing the recoverable amount with carrying value. Recoverable amount is deemed as being either an enterprise value where the subsidiary is a trading entity or net asset value where the subsidiary has no trading assets.

	Investments in subsidiary undertakings £m
Cost	
At 29 September 2018	3,353
Additions	–
At 28 September 2019	3,353
Additions[a]	47
At 26 September 2020	**3,400**
Provision	
At 29 September 2018	1,879
Impairment	–
At 28 September 2019	1,879
Impairment	–
At 26 September 2020	**1,879**
Net book value	
At 26 September 2020	**1,521**
At 28 September 2019	1,474
At 29 September 2018	1,474

a. During the period the Company subscribed for 47 million ordinary shares of £1 each in Mitchells and Butlers Holdings (No. 2) Limited.

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.

Impairment review – critical accounting judgements
Investments in trading subsidiaries have been tested for impairment using forecast cash flows, discounted by applying a pre-tax discount rate of 9.9% (2019 7.3%). Given current uncertainty of UK long-term growth rates following the Covid-19 pandemic, for the purposes of the calculation of the recoverable amount, the cash flow projections include 0.0% (2019 0.0%) of growth per annum. As a result, the Company's investment in Mitchells and Butlers Holdings (No. 2) Limited has been impaired by £nil (2019 £nil).

For the investment impairment review, judgement has been applied to determine the most appropriate forecast to use as a result of the impact of Covid-19 on site profitability. Forecasts for cash flows of trading subsidiaries have been based on the overall Group forecast for FY 2021 that was in place at the balance sheet date. This forecast assumed that the Group would not be subject to enforcement of a prolonged national lockdown but would continue to trade at a materially lower level of sales due to selected regional lockdowns alongside other national restrictions, under the UK Government's three tier alert system in England (and similar arrangements in Scotland, Wales, Northern Ireland and Germany). The forecast assumed reduced sales throughout FY 2021, building up to pre-Covid-19 levels of trade by the fourth quarter of FY 2021. In addition, the forecast also includes a reduction in VAT on non-alcohol sales to April 2021 and business rate relief to April 2021.

Key sources of estimation uncertainty
The investment impairment review requires two key sources of estimation uncertainty in calculating the enterprise value: the estimation of forecast cash flows and the selection of an appropriate discount rate.

Sensitivity analysis
Changes in forecast cash flows or discount rate could materially impact the recoverability of the investments.

Discount rate
The average movement in discount rates applied over the last three years is 0.8%. It is estimated that a 0.8% increase in the discount rate would generate an impairment charge of £125m.

Forecast cash flows
The forecast cash flows used in the enterprise value calculation are based on the overall Group profit forecast for FY 2021, in existence at the balance sheet date. Management have also determined a potential downside scenario to this forecast which assumes a longer turnaround of profit back to pre-Covid-19 levels. The use of this downside forecast would result in a 17.7% reduction to cash flows in FY 2021 against the FY 2021 base case forecast. However, applying this downside scenario would not result in an impairment charge.

6. AMOUNTS OWED BY SUBSIDIARY UNDERTAKINGS

	2020 £m	2019 (restated*) £m
Non-current		
Amounts owed by subsidiary undertakings	**379**	480

	2020 £m	2019 (restated*) £m
Current		
Amounts owed by subsidiary undertakings	**81**	193

* An amount of £480m has been restated from current to non-current in the prior period (as described in note 1). Amounts owed by subsidiary undertakings are repayable on demand. However, £379m (2019 £480m) of these amounts are disclosed as non-current as they are not expected to be settled within the next twelve months. Interest is not charged on all balances. Where interest is charged, it is charged at market rate, based on what can be achieved on corporate deposits.

Critical accounting judgements

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

An amount of £131m is owed by Mitchells & Butlers Leisure Retail Limited, the management service company within the Mitchells & Butlers Group. The securitisation covenants, as described on page 104 of Section 1 to the consolidated financial statements, require sufficient headroom to be maintained on the FCF : debt service ratio. As a result Mitchells & Butlers Leisure Retail Limited is not expected to be able to increase future management service charges to the securitised group. It is therefore considered unlikely that Mitchells & Butlers Leisure Retail Limited will become profitable and hence will be unable to make payments against the amounts owed to the Company in future periods. A lifetime ECL of £131m (2019 £nil) has therefore been recognised at the period end against this balance.

The assessment of lifetime ECL for the remaining amounts owed by subsidiary undertakings has been performed with no requirement to recognise a provision in either the current or prior period.

The Directors consider that the carrying value of amounts owed by subsidiary undertakings approximately equates to their fair value.

7. TRADE AND OTHER PAYABLES

	2020 £m	2019 £m
Amounts owed to subsidiary undertakings[a]	**282**	282
Accrued charges	**1**	2
	283	284

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:

	2020 £m	2019 £m
Current		
Bank overdraft	**15**	8
Total borrowings	**15**	8

Unsecured revolving credit facility

The Company holds an uncommitted gross overdraft facility of £50m (2019 £50m) as part of the Group's notional pooling arrangements with a net facility limit of £5m (2019 £5m) across the participating Group companies. The amount drawn at 26 September 2020 is £15m (2019 £8m). In addition the Company held an uncommitted credit facility of £10m in the prior period which was not renewed in the current period.

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 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
Charged to income statement – pensions	(8)
Charged to income statement – tax losses	(1)
Credited to other comprehensive income – pensions	8
At 26 September 2020	**40**

Analysed as tax timing differences related to:

	2020 £m	2019 £m
Pensions	**36**	36
Tax losses[a]	**3**	4
Share-based payments	**1**	1
	40	41

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.