Financial Statements

In this section

Independent auditor's report to the members of Mitchells & Butlers plc

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 25 September 2021 and of the Group's loss for the 52 weeks then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and 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.

We have audited the financial statements which comprise:

- the Group income statement;
- the Group statement of comprehensive income/(expense);
- 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 5.4 of the 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, international accounting standards in conformity with the requirements of the Companies Act 2006 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 for the year 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 Parent Company.

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

3. Material uncertainty related 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 £1.5bn at 25 September 2021 (2020 £1.6bn), secured on the majority of the real estate properties owned by the Group. As at 25 September 2021, the Group had cash and cash equivalents of £227m, and undrawn committed unsecured facilities of £150m. The existing £150m of revolving credit facilities (RCF) was renegotiated and extended to February 2024 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 within the securitisation it was agreed to waive a number of covenants across the securitised borrowings till Q2 2022, including reduced testing levels till Q3 and Q4 2022. The covenants for the unsecured borrowings commence in Q4 2022. The covenants are tested annually and quarterly, based around the Group's net worth and free cash flow to debt service respectively. The covenants are 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 an average decline in sales of 7.4% or more, prior to any mitigating actions or consideration of future government support, would result in a breach in covenants for securitised and non-securitised borrowings in Q4 2022. As explained in note 1, management has determined that there is a high level of unpredictability and uncertainty concerning the future incidence of the pandemic. Accordingly, the Directors are unable to conclude that the prospect of either such a further lockdown or of material restrictions being imposed is remote. A breach of covenants would lead to the need for the Group to negotiate further waivers or renegotiate its borrowing facilities.

As such a material uncertainty exists which may cast significant doubt over the Group's and Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

The Audit Committee has included the adoption of the going concern basis of accounting as a key risk on page 77.

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

Our evaluation of the Directors' assessment of the Group's and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- using modelling specialists to perform testing on the mechanical accuracy of the model used to prepare the Group's cash flow forecast;
- considering the consistency of management's forecasts with other areas of the audit, including the right-of-use asset impairment review and revaluation of freehold and long leasehold properties (including consideration of management's expert's view of the likely recovery);
- challenging 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;
- obtaining an understanding of the financing facilities available to the Group, included understanding repayment terms and covenant definitions;
- assessing the impact of reverse stress testing on the Group's funding position and covenant calculations, including the appropriateness of performance recovery assumptions;
- assessing and challenging the mitigating actions available to management, should these be required to offset the impact of the forecast performance not being achieved;
- assessing the appropriateness of risk factors disclosed in the Group's going concern statement and the financial impact of those risk factors; and
- challenging the sufficiency of the Group's disclosures over the going concern basis and material uncertainty arising.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to:

- the Directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting; and
- the Directors' identification in the financial statements of the material uncertainty related to the Group's and Parent Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.

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

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 related to going concern section); • Valuation of freehold and long leasehold property; • Impairment of short leasehold properties, right-of-use assets and fixtures and fittings; and • Government assistance – Coronavirus Job Retention Scheme. 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 £5.8m which was determined on the basis of 0.6% 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 FY 2020.
Significant changes in our approach	The risk level of the FY 2020 key audit matter, presentation of separately disclosed items has decreased. This key audit matter was introduced in the prior period in light of the coronavirus pandemic and the potential for management to attribute exceptional items to the pandemic which were difficult to quantify and could be misleading. Management have not included any additional items in relation to Covid-19 in their separately disclosed items in FY 2021 and as such this is no longer a key audit matter.

Independent auditor's report to the members of Mitchells & Butlers plc continued

5. 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 related 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
5.1. 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 25 September 2021 is £4.3bn (2020 £4.1bn). The revaluation exercise performed in the year has resulted in an impairment reversal of £51m (2020 impairment charge of £43m) and an increase in revaluation reserves of £150m (2020 decrease 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. When making assumptions about fair maintainable trade the Group has used trading performance for the 52 week period up to March 2020, the point of the first full lockdown following the emergence of Covid-19, in conjunction with the previous two years of trading performance. The additional income shortfall deduction that was introduced in FY 2020 to reflect that post Covid-19 trading results may not return to historic levels in the short term has been removed for FY 2021 following the end of government issued restrictions and lockdowns. 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 (2020 three periods) have been reviewed for impairment. For invested sites during FY 2021 the valuation is capped at the higher of the previous valuation or cost. 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 77.	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 property valuation. This included: • challenging management's external advisor on the appropriateness of the fair maintainable trade value used against Red Book guidance, the multiples adopted across the portfolio and the removal of the income shortfall deduction (see above); • 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 tenant's fixtures and fittings by reference to market value; • re-performing management's process for identifying sites requiring a spot valuation to assess the completeness of spot valuations; • using specialists to review a sample of spot valuations to assess the reasonableness of the attributed 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 and the multiples adopted; and • the completeness of spot valuations.	From the work performed, we are in agreement with the methodology chosen and the assumptions adopted to revalue the freehold and long leasehold properties. 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
5.2. Impairment of short leasehold properties, right-of-use assets and fixtures and fittings S		
Under IFRS, the Group is required to complete an impairment review of short leasehold properties, right-of-use assets and fixtures and fittings where there are indicators of impairment. A £13m (2020 £50m) impairment has been recognised during the year. The short leasehold properties, right-of-use assets 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 Covid-19 and uncertainty over the pace and extent of recovery of the Group and the wider economy. 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 2024. Assumptions beyond this period assume 2% 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 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 assumptions in forecast site performance are the discount rate, the long term growth rate, the Group gradually returning to pre-Covid level sales from the latter part of FY 2022 and returning the Group to FY 2019 profitability over the medium/longer term. Refer to note 3.1 and 3.2 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 77.	Our audit procedures included: • obtaining an understanding of controls in relation to the impairment review, including controls covering management's review of the completeness and accuracy of the key inputs into the impairment model, key judgements made in relation to forecast earnings before depreciation, amortisation, interest and tax, and the site level impairments output from the model; • assessing the methodology applied in performing the impairment review with reference to the requirements of IAS 36 Impairment of Assets; • 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 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, right-of-use assets and fixtures and fittings in note 3.1 and note 3.2 of the financial statements.	As set out, the short leasehold properties, right-of-use assets 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 Covid-19 on customer confidence and demand is not yet known. The impairment provision is underpinned by the assumption sales returns to pre-Covid levels sales in FY 2022, including benefits from the VAT reduction in the first half of the 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, right-of-use assets and fixtures and fittings is appropriate. Given the uncertainties noted, the disclosure sensitivities in note 3.1 and note 3.2 provide important information to assess the impact of a change in key assumptions.

Independent auditor's report to the members of Mitchells & Butlers plc continued

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
5.3. Government assistance – Coronavirus Job Retention Scheme S		
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 HMRC 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 Scheme (CJRS) and the associated calculations and the amount of income received in the period, £210m (2020 £165m), 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: • obtaining an understanding of controls in relation to the recognition of CJRS income, including management's review of the CJRS claims spreadsheet for accuracy of the data compared to the payroll system and for compliance against the HMRC CJRS scheme rules; • 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 £210m 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.	From the work performed above, we are satisfied that CJRS income has been appropriately recognised.

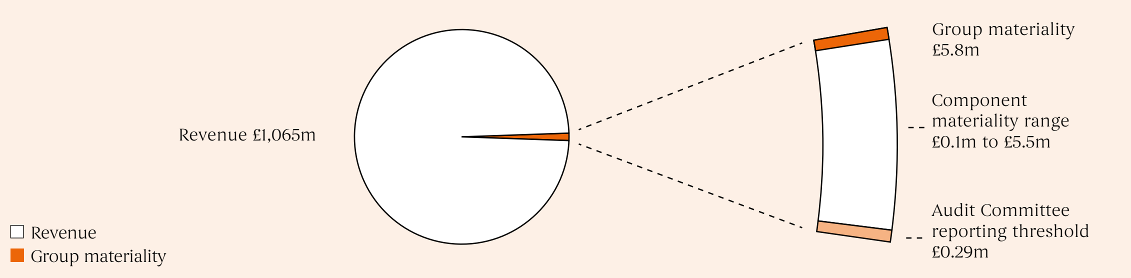
6. Our application of materiality

6.1. 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	£5.8m (2020 £5.9m)	£5.5m (2020 £5.6m)
Basis for determining materiality	0.6% of revenue (2020 0.4% of revenue).	Parent Company materiality equates to 0.3% of net assets (2020 0.3%), which is capped at 95% of Group materiality (2020 95%).
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. We increased the percentage of revenue so that the materiality was broadly in comparison to the prior year to reflect the overall size and scale of the business.	The Parent Company does not trade so materiality has been determined using net assets.



6.2. 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 financial statements	Parent Company financial statements
Performance materiality	70% (2020 70%) of Group materiality	70% (2020 70%) of Parent Company materiality
Basis and rationale for determining performance materiality	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 7.2); and • our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £290,000 (2020 £295,000), 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.

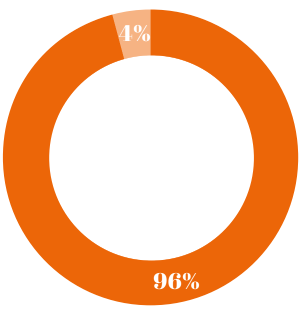
7. An overview of the scope of our audit

7.1 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 96% (2020 95%) of revenue and 99% (2020 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 FY 2020. At the Parent Company level we also tested the consolidation process, as well as the Company balances to Parent Company materiality.

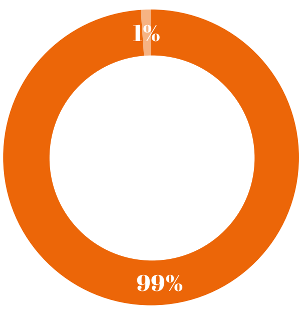
Our audit work on the UK business was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from £0.1m to £5.5m (2020 £0.1m to £5.6m).

Revenue



■ Full audit scope 96%
■ Review at group level 4%

Net assets



■ Full audit scope 99%
■ Review at group level 1%

7.2. 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.

8. Other information

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

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

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

We have nothing to report in this regard.

9. 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.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

11.1. 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 relevant internal specialists, including tax, valuations, pensions, IT and financial instruments 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, right-of-use assets and fixtures and fittings; and
- government assistance – Coronavirus Job Retention Scheme 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.

11.2. 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, right-of-use assets and fixtures and fittings, and government assistance – Coronavirus Job Retention Scheme 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

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Report on the Directors' remuneration 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.

13. Corporate Governance Statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 41;
- the Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 41;
- the Directors' statement on fair, balanced and understandable set out on page 61;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 32;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 76; and
- the section describing the work of the Audit Committee set out on page 76.

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 Report on the Directors' Remuneration 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 which we are required to address

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 eleven years, covering the years ending 24 September 2011 to 25 September 2021. The year ended 25 September 2021 will be our final year as auditors of the Group.

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.

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

Group income statement

For the 52 weeks ended 25 September 2021

		2021 52 weeks			2020 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	**1,065**	**–**	**1,065**	1,475	–	1,475
Operating costs before depreciation, amortisation and movements in the valuation of the property portfolio	2.2, 2.3	**(898)**	**13**	**(885)**	(1,221)	2	(1,219)
Share in associates results	3.6	**1**	**–**	**1**	(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		**168**	**14**	**182**	253	2	255
Depreciation, amortisation and movements in the valuation of the property portfolio	2.2, 2.3	**(139)**	**38**	**(101)**	(154)	(93)	(247)
Operating profit/(loss)		**29**	**52**	**81**	99	(91)	8
Finance costs	4.2	**(122)**	**–**	**(122)**	(128)	–	(128)
Finance income	4.2	**2**	**–**	**2**	1	–	1
Net pensions finance charge	4.2, 4.5	**(3)**	**–**	**(3)**	(4)	–	(4)
(Loss)/profit before tax		**(94)**	**52**	**(42)**	(32)	(91)	(123)
Tax credit/(charge)	2.2, 2.4	**17**	**(40)**	**(23)**	5	6	11
(Loss)/profit for the period		**(77)**	**12**	**(65)**	(27)	(85)	(112)
Loss per ordinary share (restated)[c]							
– Basic	2.5	**(13.6)p**		**(11.5)p**	(5.7)p		(23.6)p
– Diluted	2.5	**(13.6)p**		**(11.5)p**	(5.7)p		(23.6)p

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 Directors use a number of alternative performance measures (APMs) that are considered critical to aid the understanding of the Group's performance. Key measures are explained on pages 168 to 170 of this report.
c. Loss per share for the comparative periods have been restated to reflect the bonus element of the Open Offer share issue completed on 12 March 2021. See note 2.5.

The notes on pages 111 to 161 form an integral part of these consolidated financial statements.

All results relate to continuing operations.

Group statement of comprehensive income/(expense)

For the 52 weeks ended 25 September 2021

	Notes	**2021 52 weeks £m**	2020 52 weeks £m
Loss for the period		**(65)**	(112)
Items that will not be reclassified subsequently to profit or loss:			
Unrealised gain/(loss) on revaluation of the property portfolio	3.1	**150**	(148)
Remeasurement of pension liability	4.5	**9**	3
Tax relating to items not reclassified	2.4	**(97)**	1
		62	(144)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(1)**	–
Cash flow hedges:			
– Gains/(losses) arising during the period	4.3	**32**	(43)
– Reclassification adjustments for items included in profit or loss	4.3	**56**	48
Tax relating to items that may be reclassified	2.4	**(4)**	5
		83	10
Other comprehensive income/(expense) after tax		**145**	(134)
Total comprehensive income/(expense) for the period		**80**	(246)

The notes on pages 111 to 161 form an integral part of these consolidated financial statements.

Group balance sheet

25 September 2021

	Notes	2021 £m	2020 £m
Assets			
Goodwill and other intangible assets	3.5	**13**	14
Property, plant and equipment	3.1	**4,442**	4,305
Right-of-use assets	3.2	**379**	402
Interests in associates	3.6	**5**	4
Finance lease receivables	3.2	**14**	15
Deferred tax asset	2.4	**4**	85
Derivative financial instruments	4.3	**29**	45
Total non-current assets		**4,886**	4,870
Inventories	3.3	**19**	22
Trade and other receivables	3.3	**48**	41
Current tax asset		**3**	1
Finance lease receivables	3.2	**1**	2
Cash and cash equivalents	4.4	**252**	173
Total current assets		**323**	239
Total assets		**5,209**	5,109
Liabilities			
Pension liabilities	4.5	**(51)**	(51)
Trade and other payables	3.3	**(333)**	(314)
Current tax liabilities		**(2)**	–
Borrowings	4.1	**(134)**	(238)
Lease liabilities	3.2	**(50)**	(58)
Derivative financial instruments	4.3	**(37)**	(40)
Total current liabilities		**(607)**	(701)
Pension liabilities	4.5	**(92)**	(142)
Borrowings	4.1	**(1,416)**	(1,542)
Lease liabilities	3.2	**(463)**	(483)
Derivative financial instruments	4.3	**(172)**	(257)
Deferred tax liabilities	2.4	**(346)**	(302)
Provisions	3.4	**(9)**	(5)
Total non-current liabilities		**(2,498)**	(2,731)
Total liabilities		**(3,105)**	(3,432)
Net assets		**2,104**	1,677
Equity			
Called up share capital	4.7	**51**	37
Share premium account	4.7	**356**	28
Capital redemption reserve	4.7	**3**	3
Revaluation reserve	4.7	**1,150**	1,117
Own shares held	4.7	**(3)**	(3)
Hedging reserve	4.7	**(156)**	(240)
Translation reserve	4.7	**13**	14
Retained earnings		**690**	721
Total equity		**2,104**	1,677

The notes on pages 111 to 161 form an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the Board and authorised for issue on 24 November 2021.
They were signed on its behalf by:

Tim Jones
Chief Financial Officer

Group statement of changes in equity

For the 52 weeks ended 25 September 2021

	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 2019	37	26	3	1,267	(4)	(250)	14	830	1,923
Loss 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 charge on share-based payments	–	–	–	–	–	–	–	(2)	(2)
At 26 September 2020	37	28	3	1,117	(3)	(240)	14	721	1,677
Impact of Covid-19 rent concessions[a]	–	–	–	–	–	–	–	1	1
At 26 September 2020 (revised)	37	28	3	1,117	(3)	(240)	14	722	1,678
Loss for the period	–	–	–	–	–	–	–	(65)	(65)
Other comprehensive income/(expense)	–	–	–	33	–	84	(1)	29	145
Total comprehensive income/(expense)	–	–	–	33	–	84	(1)	(36)	80
Share capital issued[b]	14	328	–	–	–	–	–	–	342
Purchase of own shares	–	–	–	–	(1)	–	–	–	(1)
Release of own shares	–	–	–	–	1	–	–	(1)	–
Credit in respect of share-based payments	–	–	–	–	–	–	–	3	3
Tax credit on share-based payments	–	–	–	–	–	–	–	2	2
At 25 September 2021	**51**	**356**	**3**	**1,150**	**(3)**	**(156)**	**13**	**690**	**2,104**

a. Retained earnings at 26 September 2020 have been increased for the impact of Covid-19 related rent concessions agreed in the current period but relating to the 52 weeks ended 26 September 2020. See notes 1 and 3.2 for further details.
b. Details of the share capital and premium issued as part of the Open Offer share issue on 12 March 2021 are provided in note 4.7.

Group cash flow statement

For the 52 weeks ended 25 September 2021

	Notes	2021 52 weeks £m	2020 52 weeks £m
Cash flow from operations			
Operating profit		**81**	8
Add back/(deduct):			
Movement in the valuation of the property portfolio	2.2	**(38)**	93
Net profit arising on property disposals	2.2	**(1)**	–
Depreciation of property, plant and equipment	2.3	**98**	110
Amortisation of intangibles	2.3	**4**	3
Depreciation of right-of-use assets	2.3	**37**	41
Loss on disposal of fixtures, fittings and equipment		**2**	–
Cost charged in respect of share-based payments	4.6	**3**	2
Past service cost in relation to the defined benefit pension obligation	4.5	**3**	–
Administrative pension costs	4.5	**5**	2
Share of associates results	3.6	**(1)**	1
Impairment of finance lease receivables	3.2	**2**	–
Operating cash flow before movements in working capital and additional pension contributions		**195**	260
Decrease in inventories		**3**	4
(Increase)/decrease in trade and other receivables		**(7)**	9
Increase in trade and other payables		**10**	6
Increase in provisions		**1**	1
Additional pension contributions	4.5	**(52)**	(25)
Cash flow from operations		**150**	255
Interest payments[a]		**(65)**	(73)
Interest payments on interest rate swaps[a]		**(40)**	(38)
Interest receipts on cross currency swap[a]		**1**	3
Interest payments on cross currency swap[a]		**(1)**	(1)
Other interest paid – lease liabilities	4.4	**(21)**	(8)
Borrowing facility fees paid		**(1)**	(1)
Interest received		**1**	1
Tax received/(paid)		**1**	(11)
Net cash from operating activities		**25**	127
Investing activities			
Purchases of property, plant and equipment		**(29)**	(104)
Purchases of intangible assets		**(4)**	(4)
Proceeds from sale of property, plant and equipment		**1**	2
Finance lease principal repayments received		**–**	2
Net cash used in investing activities		**(32)**	(104)
Financing activities			
Issue of ordinary share capital	4.7	**342**	2
Purchase of own shares	4.7	**(1)**	(3)
Repayment of principal in respect of securitised debt[b]	4.4	**(107)**	(99)
Principal receipts on currency swap[b]	4.4	**17**	18
Principal payments on currency swap[b]	4.4	**(14)**	(14)
(Repayment)/drawings under liquidity facility	4.4	**(9)**	9
(Repayment)/drawdown of term loan	4.4	**(100)**	100
(Repayment)/drawdown of unsecured revolving credit facilities	4.4	**(10)**	10
Cash payments for the principal portion of lease liabilities	4.4	**(41)**	(22)
Net cash from financing activities		**77**	1
Net increase in cash and cash equivalents		**70**	24
Cash and cash equivalents at the beginning of the period	4.4	**158**	133
Foreign exchange movements on cash		**(1)**	1
Cash and cash equivalents at the end of the period	4.4	**227**	158

a. Interest paid has been split to show gross payments on the interest rate and cross currency swaps.
b. Principal repayments on securitised debt have been split to show repayments relating to the cross currency swap.

The notes on pages 111 to 161 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

Section 1 – Basis of preparation

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 171.

The principal activities of the Company and its subsidiaries (the Group) and the nature of the Group's operations are set out in the Strategic report on pages 10 to 46.

The Group is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted within the UK 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 25 September 2021 and the comparative period ended 26 September 2020 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 10 to 46. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described within the Finance review on pages 43 to 46.

Note 4.3 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 4.1 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 their possible adverse impact on financial performance, specifically revenue and cash flows.

Liquidity

As at 25 September 2021, the Group had cash and cash equivalents of over £200m, and undrawn committed unsecured facilities of £150m. We expect to retain 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 £1.5bn. 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 15 February 2021, alongside the announcement of the equity Open Offer, 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 £150m fall due for repayment in February 2024, outside of 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 significant periods. 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:

- an extension of the 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 April 2022 and a waiver of the four quarter look-back debt service coverage ratio test up until July 2022. The covenants are then initially tested on reduced levels, before full reinstatement of both tests from January 2023;
- 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 January 2023;
- a reduction in the minimum amount required to be spent on maintenance during FY 2021 arising from the business having been temporarily suspended; and
- a waiver to facilitate drawings of up to £110m in total under the Liquidity Facility providing the Group with additional facilities in order to meet payments of principal and interest, provided such drawings are repaid in full by 15 December 2021.

Notes to the consolidated financial statements continued
Section 1 – Basis of preparation continued

Going concern continued

Revised facilities and covenants continued

In order to secure such amendments and waivers, the Group gave certain undertakings in relation to its own financing arrangements, namely, to secure additional equity funding and an extension of £150m of the liquidity facilities referred to below, and an undertaking to provide funding into the securitisation of up to £110m in line with new drawings on the Liquidity Facility.

Furthermore, it was agreed with the Group's unsecured relationship banks that the term of existing £150m committed unsecured facilities be extended to 14 February 2024.

Full details of the Group's debt arrangements are provided in note 4.1.

Significant judgements and base case

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

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

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

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

Reverse stress test

The Group has also undertaken reverse stress test modelling, being the identification of that level of downside forecast at which the business model becomes unsustainable for either solvency or liquidity reasons. Due to the complex capital structure of the Group, involving the interaction of both secured and unsecured estates, with quarterly covenant testing (on both a four quarter and two quarter look-back basis) within the securitisation and monthly and quarterly tests in the unsecured estate, there is a very wide range of scenarios on which the reverse stress test can be constructed.

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

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

Any breach in covenants would result in a need for a further 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 £1,416m 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; they believe that a waiver of the covenants or renegotiation of the facilities should be achievable.

Going concern statement

Notwithstanding the material uncertainty highlighted above, after due consideration the Directors have a reasonable expectation that the Company 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 and do not include any adjustments that would result if the going concern basis were not appropriate. A review of longer term viability is provided on page 41 which assesses the Group's ability to continue in operation and to 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 = €1.15 (2020 £1 = €1.09), 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 = €1.17 (2020 £1 = €1.10) and £1 = $1.37 (2020 £1 = $1.27) 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.

Accounting standard	Effective date
Amendments to the Conceptual Framework for Financial Reporting, including amendments to references to the Conceptual Framework in IFRS Standards	The Group has adopted the amendments included in Amendments to References to the Conceptual Framework in IFRS Standards for the first time in the current period. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. Not all amendments, however, update those pronouncements with regard to references to and quotes from the Framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework. The relevant Standards which are amended are IFRS 2, IFRS 3, IAS 1, IAS 8, IAS 34, IAS 37 and IAS 38.
Amendments to IFRS 3 Business Combinations – Definition of a Business	The Group has adopted the amendments to IFRS 3 for the first time in the current period. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired. The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after 27 September 2020.
Amendments to IAS 1 and IAS 8 – Definition of Material	The Group has adopted the amendments to IAS 1 and IAS 8 for the first time in the current period. The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of 'material' or refer to the term 'material' to ensure consistency.
Amendment to IFRS 16 Leases Covid 19-Related Rent Concessions (issued on 28 May 2020) and Covid-19 Related Rent Concessions beyond 30 June 2021 (effective 1 April 2021)	In May 2020, the IASB issued Covid-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of Covid-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a Covid-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the Covid-19-related rent concession applying IFRS 16 as if the change were not a lease modification. The practical expedient applies only to rent concessions occurring as a direct consequence of Covid-19 and only if all of the following conditions are met. (a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (b) Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and (c) There is no substantive change to other terms and conditions of the lease. In March 2021, the IASB extended the application date to allow lessees to apply the practical expedient for any reduction in rent payments originally due on or before 30 June 2022. This change is effective for periods beginning on or after 1 April 2021, but can be adopted early. The Group has received £2m of Covid-19 related rent concessions. The resulting impact of this change on opening retained earnings and the current period income statement is disclosed in note 3.2.

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.

Notes to the consolidated financial statements *continued*

Section 1 – Basis of preparation *continued*

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 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
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, IFRS 16 Leases)	1 January 2021

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 and prior periods, 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 111 to 112.

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 the prior period.

Critical judgements are described in each section listed below:

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

Key sources of estimation uncertainty are described in:

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

Section 2 – Results for the period

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 operating profit before interest and separately disclosed items 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	
	2021 52 weeks £m	2020 52 weeks £m	**2021 52 weeks £m**	2020 52 weeks £m	**2021 52 weeks £m**	2020 52 weeks £m
Revenue – sales to third parties	**1,009**	1,401	**56**	74	**1,065**	1,475
Segment non-current assets[a]	**4,817**	4,698	**36**	38	**4,853**	4,736

a. Includes balances relating to intangibles, property, plant and equipment, right-of-use assets, investments in associates and finance lease receivables.

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, investors and other stakeholders 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.

Judgement is used to determine those items which should be separately disclosed. 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 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 and impairment review of tenant's fixtures and fittings, short leasehold properties, right-of-use assets and unlicensed properties; profit/(loss) on disposal of properties; 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 and discount rate where impairment reviews are completed. 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.

Notes to the consolidated financial statements continued

Section 2 – Results for the period continued

2.2 Separately disclosed items continued

The items identified in the current period are as follows:

	Notes	2021 52 weeks £m	2020 52 weeks £m
Separately disclosed items			
Past service cost in relation to the defined benefit obligation	a	**(3)**	–
Costs directly associated with Covid-19 and the enforced closure of pubs	b	**(4)**	(11)
Gaming machine settlement	c	**20**	13
Total separately disclosed items recognised within operating costs		**13**	2
Net profit arising on property disposals		**1**	–
Movement in the valuation of the property portfolio:			
– Impairment reversal/(impairment charge) arising from the revaluation of freehold and long leasehold properties	d	**51**	(43)
– Impairment of freehold and long leasehold tenant's fixtures and fittings	e	**(3)**	(10)
– Impairment of short leasehold and unlicensed properties	f	**(2)**	(7)
– Impairment of right-of-use assets	g	**(8)**	(33)
Net movement in the valuation of the property portfolio		**38**	(93)
Total separately disclosed items before tax		**52**	(91)
Tax credit relating to above items		**(11)**	16
Tax charge relating to change in tax rate	h	**(29)**	(10)
		(40)	6
Total separately disclosed items after tax		**12**	(85)

a. On 20 November 2020, the High Court ruled that pension schemes will need to revisit individual transfer payments since 17 May 1990 to check if any additional value is due as a result of guaranteed minimum pensions (GMPs) equalisation. This latest judgement follows on from the ruling regarding GMPs 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 payments 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. The past service cost recognised in the current period is an estimate of the impact to the Group's schemes as a result of this ruling. See note 4.5.

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 usable dates as a result of the Government enforced closure of pubs during periods of local and national lockdown. These costs are not considered to be part of normal trading activity.

c. The income of £13m in the prior period relates to a long-standing claim with HMRC, relating to VAT on gaming machines income pre-2005. HMRC first paid the 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 interest.

In the current period, a decision of a First-Tier tribunal in the case of the Rank Group Plc against HMRC, for the period post-2005, was given in favour of the taxpayers, with HMRC subsequently confirming it will not appeal against the decision and will now pay valid claims. As a result, the Group has resubmitted a claim to HMRC covering the period from 2005 to 2012 for VAT on gaming machine income. An estimate of the amount receivable, including interest, of £20m has been recognised in the current period based on the final adjusted settlement received from HMRC for the pre-2005 period.

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. Impairment of short leasehold and unlicensed properties where their carrying values exceed their 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. A deferred tax charge has been recognised in the current period following the substantive enactment of legislation on 10 June 2021, which increased the UK standard rate of corporation tax from 19% to 25% from 1 April 2023. A deferred tax charge has been recognised in the prior 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 separately disclosed 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 continued until 30 September 2021. A similar scheme has operated in Germany (Kurzarbeit).

Eat Out to Help Out

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

Business rates

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

Local Authority grants

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

German Government grants

During the period, the Group has been entitled to receive government assistance in Germany as a result of Covid-19 in relation to the pubs and restaurants that are operated there. Assistance has been received in relation to staff wages and salaries under Kurzarbeit. In addition the German Government provided grants to assist with loss of profits during enforced closure periods under the November Support and December Support schemes, as well as the Fixed Cost Bridging Aid scheme. These grants all fall outside of the Temporary Framework and are therefore excluded from the State Aid maximum rules.

Notes to the consolidated financial statements continued

Section 2 – Results for the period continued

2.3 Revenue and operating costs continued

Government grants

The impact of grants received on the income statement is as follows:

Government grant scheme	Income statement line impact	2021 52 weeks £m	2020 52 weeks £m
Eat Out to Help Out	Revenue – food and drink	–	30
Local Authority Grants (UK and Germany)	Revenue – other	11	–
Grants for loss of profits in Germany	Revenue – other	14	–
Coronavirus Job Retention Scheme	Operating costs before separately disclosed items	210	165
Government assistance for wages and salaries in Germany (Kurzarbeit)	Operating costs before separately disclosed items	9	3
Total Government grants received		**244**	198

In addition to the grants received above, during the prior period, the UK Government announced 100% rate relief for all pubs and restaurants for the business rates year 2020/2021, covering the period from 1 April 2020 to 31 March 2021. During the current period, the UK Government announced an additional 3 months of 100% business rates relief to cover 1 April 2021 to 30 June 2021 for properties in England. Following this, business rates have been discounted by two-thirds from 1 July 2021 until 31 March 2022 in England. However, this extended relief is capped at £2m for the Group. There has also been an extension of 100% rates relief for hospitality businesses in Scotland and Wales until 31 March 2022. The impact in the current period, across all sites within the UK, is an estimated saving of £75m (2020 £47m).

The Group has also benefitted from a reduction in the rate of VAT from 20% to 5% on non-alcoholic sales which was introduced by the UK Government on 15 July 2020 and continued until 30 September 2021. Following this a rate of 12.5% applies for the subsequent six months until 31 March 2022. The estimated impact of this on food and drink revenue in the current period is £81m (2020 £31m).

Revenue

Revenue is analysed as follows:

	2021 52 weeks £m	2020 52 weeks £m
Food	592	782
Drink	414	645
Services	34	48
Other – Local Authority grants (UK and Germany)	11	–
Other – German government grants for loss of profits	14	–
	1,065	1,475

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. As the scheme only operated during August 2020, there is no impact in the current period.

Revenue from services includes rent receivable from unlicensed properties and leased operations of £6m (2020 £7m).

Operating costs

Operating costs are analysed as follows:

	2021 52 weeks £m	2020 52 weeks £m
Raw materials and consumables recognised as an expense[a]	**241**	370
Changes in inventory of finished goods and work in progress	**3**	4
Employee costs	**403**	519
Hire of plant and machinery	**9**	14
Property operating lease costs[b]	**7**	9
Other costs	**235**	305
Operating costs before depreciation, amortisation and separately disclosed items	**898**	1,221
Other separately disclosed items (note 2.2)	**(13)**	(2)
	885	1,219
Net profit arising on property disposals	**(1)**	–
Depreciation of property, plant and equipment (note 3.1)	**98**	110
Depreciation of right-of-use assets (note 3.2)	**37**	41
Amortisation of intangible assets (note 3.5)	**4**	3
Net movement in the valuation of the property portfolio (note 2.2)	**(38)**	93
Depreciation, amortisation and movements in the valuation of the property portfolio	**101**	247
Total operating costs	**985**	1,466

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. Property operating lease costs include service charge, insurance and turnover rents.

Employee costs

	2021 52 weeks £m	2020 52 weeks £m
Wages and salaries	**568**	629
Share-based payments (note 4.6)	**3**	2
Social security costs	**38**	43
Pensions (note 4.5)	**13**	13
Employee costs before Government grants	**622**	687
UK Government grant[a]	**(210)**	(165)
German Government grant[b]	**(9)**	(3)
Total employee costs	**403**	519

a. A Government grant 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. In the UK, the scheme commenced on 20 March 2020 and continued until 30 September 2021.
b. A grant was received in relation to employee wages and salaries from the German Government under Kurzarbeit, as described above.

The 4-weekly average number of employees including part-time employees was 38,852 retail employees (2020 43,394) and 1,001 support employees (2020 1,072).

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 79 to 96.

Notes to the consolidated financial statements *continued*
Section 2 – Results for the period *continued*

2.3 Revenue and operating costs continued
Auditor remuneration

	2021 52 weeks £m	2020 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	**0.5**	0.4
Total audit fees[a]	**0.7**	0.6
Other fees to auditor:		
– audit related assurance services	**–**	–
– other non-audit services[b]	**0.6**	–
Total non-audit fees	**0.6**	–
Total fees	**1.3**	0.6

a. Auditor's remuneration of £0.6m (2020 £0.5m) was paid in the UK and £0.1m (2020 £0.1m) was paid in Germany.
b. During the period, non-audit fees of £0.6m were incurred in relation to the Open Offer completed during March 2021. As outlined in the Audit Committee policy on page 78 the external auditor should not provide non-audit services in any one year that exceed 70% of the average audit fee paid to the audit firm in the previous three years. In the case of services provided in relation to the Open Offer, after careful consideration of their independence and professional guidance, the Audit Committee agreed that it was appropriate for Deloitte to be appointed on a separate engagement to conduct the working capital review in relation to the Open Offer.

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.

Taxation – Group income statement

	2021 52 weeks £m	2020 52 weeks £m
Current tax:		
– UK corporation tax	**(2)**	–
– Amounts over provided in prior periods	**4**	2
Total current tax credit	**2**	2
Deferred tax:		
– Origination and reversal of temporary differences	**8**	21
– Effect of changes in UK tax rate	**(29)**	(10)
– Adjustments in respect of prior periods	**(4)**	(2)
Total deferred tax (charge)/credit	**(25)**	9
Total tax (charge)/credit in the Group income statement	**(23)**	11
Further analysed as tax relating to:		
Loss before separately disclosed items	**17**	5
Separately disclosed items	**(40)**	6
	(23)	11

The standard rate of corporation tax applied to the reported loss is 19.0% (2020 19.0%).

The tax charge (2020 credit) in the Group income statement for the period is lower than (2020 lower) the standard rate of corporation tax in the UK. The differences are reconciled below:

	2021 52 weeks £m	2020 52 weeks £m
Loss before tax	**(42)**	(123)
Taxation credit at the UK standard rate of corporation tax of 19.0% (2020 19.0%)	**8**	23
Expenses not deductible	**(2)**	(3)
Income not taxable	**1**	1
Tax charge in respect of change in UK tax rate	**(29)**	(10)
Effect of different tax rates of subsidiaries in other jurisdictions	**(1)**	–
Total tax (charge)/credit in the Group income statement	**(23)**	11

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

	2021 52 weeks £m	2020 52 weeks £m
Deferred tax in the Group income statement:		
Accelerated capital allowances	**(13)**	(1)
Retirement benefit obligations	**(29)**	(8)
Unrealised gains on revaluations	**–**	13
Tax losses – UK	**35**	13
Share-based payments	**1**	(1)
Rolled over and held over gains	**(19)**	(7)
Depreciated non qualifying assets	**(1)**	–
Right-of-use assets	**1**	–
Total deferred tax (charge)/credit in the Group income statement	**(25)**	9

Notes to the consolidated financial statements continued
Section 2 – Results for the period continued

2.4 Taxation continued
Taxation – other comprehensive income

	2021 52 weeks £m	2020 52 weeks £m
Deferred tax:		
Items that will not be reclassified subsequently to profit or loss:		
– Unrealised losses/gains due to revaluations – revaluation reserve	**(117)**	(2)
– Unrealised losses/gains due to revaluations – retained earnings	**16**	1
– Rolled over and held over gains – retained earnings	**(20)**	(6)
– Remeasurement of pension liability and rate change of pension liability	**24**	8
	(97)	1
Items that may be reclassified subsequently to profit or loss:		
– Cash flow hedges	**(4)**	5
Total tax (charge)/credit recognised in other comprehensive income	**(101)**	6

Tax relating to items recognised directly in equity

	2021 52 weeks £m	2020 52 weeks £m
Deferred tax:		
– Tax credit/(charge) 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:

	2021 £m	2020 £m
Deferred tax assets:		
Retirement benefit obligation (note 4.5)	**31**	36
Derivative financial instruments	**53**	57
Tax losses – UK	**52**	17
Share-based payments	**3**	1
Right-of-use assets[a]	**6**	5
Total deferred tax assets	**145**	116
Deferred tax liabilities:		
Accelerated capital allowances	**(44)**	(31)
Rolled over and held over gains	**(164)**	(125)
Unrealised gains on revaluations	**(275)**	(174)
Depreciated non-qualifying assets	**(4)**	(3)
Total deferred tax liabilities	**(487)**	(333)
Total	**(342)**	(217)

a. Short-term temporary differences recognised on transition to IFRS 16.

At 25 September 2021, the Group has netted off deferred tax assets of £141m with deferred tax liabilities where there is a legally enforceable right to settle on a net basis. At 26 September 2020, only the accelerated capital allowances of £31m were offset. The revised presentation better reflects the facts and circumstances around these tax positions. It should be noted that this adjustment has had no impact on the income statement, net assets or cash flow of the Group for the period ended 25 September 2021 or 26 September 2020. Deferred tax assets and liabilities have been offset and disclosed in the Group balance sheet as follows:

	2021 £m	2020 £m
Deferred tax assets (after offsetting)	**4**	85
Deferred tax liabilities (after offsetting)	**(346)**	(302)
Net deferred tax liability	**(342)**	(217)

Unrecognised tax allowances

At the balance sheet date the Group had unused tax allowances of £97m in respect of unclaimed capital allowances (2020 £94m) available for offset against future profits.

A deferred tax asset has not been recognised on tax allowances with a value of £24m (2020 £18m) 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 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.

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

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.

The (losses)/profits used for the (loss)/earnings per share calculations are as follows:

	2021 52 weeks £m	2020 52 weeks £m
Loss for the period	**(65)**	(112)
Separately disclosed items, net of tax	**(12)**	85
Adjusted loss for the period[a]	**(77)**	(27)

a. Adjusted loss 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 168 to 170 of this report.

Restatement

Basic and diluted (loss)/earnings per share figures for the comparative periods have been restated for the bonus factor of 1.109 to reflect the bonus element of the Open Offer share issue (see note 4.7), in accordance with IAS 33 Earnings per Share, as shown below.

	2020 52 weeks (as previously reported) million	Bonus factor	2020 52 weeks (restated) million
Basic weighted average number of ordinary shares	428	1.109	474
Effect of dilutive potential ordinary shares:			
– Other share options	1	1.109	1
Diluted weighted average number of shares	429	1.109	475

Notes to the consolidated financial statements continued
Section 2 – Results for the period continued

2.5 (Loss)/earnings per share continued

The impact of the restated number of shares on the loss per share calculation is as follows.

	2020 52 weeks (as previously reported) pence	2020 52 weeks (restated) pence
Basic loss per share		
Basic loss per share	(26.2)p	(23.6)p
Adjusted basic loss per share	(6.3)p	(5.7)p
Diluted loss per share		
Diluted loss per share	(26.1) p	(23.6) p
Adjusted diluted loss per share[a]	(6.3) p	(5.7) p

a. Adjusted loss 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 168 to 170 of this report.

The number of shares used for the (loss)/earnings per share calculations are as follows:

	2021 52 weeks million	2020 52 weeks (restated) million
Basic weighted average number of ordinary shares	**566**	474
Effect of dilutive potential ordinary shares:		
– Contingently issuable shares	**1**	–
– Other share options	**–**	1
Diluted weighted average number of shares	**567**	475

	2021 52 weeks pence	2020 52 weeks (restated) pence
Basic loss per share		
Basic loss per share	**(11.5)p**	(23.6)p
Separately disclosed items net of tax per share	**(2.1)p**	17.9p
Adjusted basic loss per share	**(13.6)p**	(5.7)p
Diluted loss per share		
Diluted loss per share	**(11.5)p**	(23.6)p
Adjusted diluted loss per share[a]	**(13.6)p**	(5.7)p

a. Adjusted loss 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 168 to 170 of this report.

At 25 September 2021, 800,570 (2020 1,894,111) 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.

Section 3 – Operating assets and liabilities

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.

Notes to the consolidated financial statements *continued*

Section 3 – Operating assets and liabilities *continued*

3.1 Property, plant and equipment continued

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 12 months, management judgement is used to determine the most appropriate source of site level FMT. The FMT is taken as the post investment forecast, as the current period trading performance includes a period of closure.

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

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

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

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

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

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

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

Key sources of estimation uncertainty

Revaluation of freehold and long leasehold properties

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

A sensitivity analysis of changes in valuation multiples and FMT, in relation to the properties to which these estimates apply, is provided on page 127. The carrying value of properties to which these estimates apply is £4,277m (2020 £4,128m).

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 128. The carrying value of assets to which these estimates apply is £146m (2020 £164m).

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 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
Additions	14	29	43
Disposals[a]	(5)	(106)	(111)
Revaluation and impairment	200	(4)	196
Exchange differences	(1)	(2)	(3)
At 25 September 2021	**4,076**	**943**	**5,019**
Accumulated depreciation			
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
Provided during the period	5	93	98
Disposals[a]	(2)	(106)	(108)
Exchange differences	(1)	(1)	(2)
At 25 September 2021	**80**	**497**	**577**
Net book value			
At 25 September 2021	**3,996**	**446**	**4,442**
At 26 September 2020	3,790	515	4,305
At 28 September 2019	3,969	559	4,528

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

Certain assets with a net book value of £41m (2020 £39m) 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 £3,806m (2020 £3,685m), which are pledged as security for the securitisation debt and over which there are certain restrictions on title.

Cost at 25 September 2021 includes £14m (2020 £8m) 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 25 September 2021, using information provided by CBRE, independent chartered surveyors. The valuation was carried out in accordance with the RICS Valuation – Global Standards 2020 which incorporate the International Valuation Standards and the RICS Valuation – Professional Standards UK (the 'Red Book') assuming each asset is sold as a fully operational trading entity. The fair value has been determined having regard to factors such as current and future projected income levels. As part of this, CBRE have taken into account the expected rebuild in trade following reopening as a result of Covid-19, as well as location, quality of the pub restaurant and recent market transactions in the sector. In the prior period, CBRE reduced the property multiples for the expected impact of Covid-19 prevailing at the balance sheet date. In the current period CBRE have selectively increased the property multiples to reflect the rebuild in trade following reopening in May 2021. However, the average multiple across the Mitchells & Butlers estate remains below the average applied pre Covid-19, incorporating an element of risk as trade rebuilds into FY 2022.

Sensitivity analysis

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

FMT

As noted in the critical accounting judgements above, FMT has been determined by reference to the trading performance up to March 2020, the point of the first full lockdown following the emergence of Covid-19, in conjunction with the previous two years of trading performance. The average movement in FMT of revalued properties over the three financial periods, prior to March 2020, is 2.5%, which is considered to be within the range of reasonably possible outcomes for future movements in FMT. It is estimated that, given the multiplier effect, a 2.5% change in the FMT of the freehold or long leasehold properties would generate an approximate £95m movement in their valuation.

Notes to the consolidated financial statements continued

Section 3 – Operating assets and liabilities continued

3.1 Property, plant and equipment continued

Multiples

Valuation multiples are determined at an individual brand level. Over the last three financial periods, the weighted average brand multiple has moved by an average of 0.4, which is considered to be within the range of reasonably possible outcomes for future movements in multiples. It is estimated that a 0.4 change in the multiple would generate an approximate £173m movement in valuation.

Impairment review

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

Short leasehold and unlicensed properties (comprising land, buildings, 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 9.6% (2020 9.9%) and a long-term growth rate of 2.0% (2020 0.0%). The long-term growth rate has been increased to 2.0% in the current period based on up to date economic data points and for consistency with the overall Group profit forecast.

Sensitivity analysis

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

Forecast cash flows

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

Discount rate

The discount rate applied in the value in use calculations is the Group WACC. Over the last two financial periods, the discount rate used in impairment reviews has moved by 0.3%. It is estimated that a 0.3% increase in this rate would generate no additional impairment charge. Similarly, it is estimated that a 0.3% decrease would reduce the impairment charge by £1m.

Long-term growth rate

The long-term growth included in the value in use calculations is 2.0%. It is estimated that if the long term growth rate was reduced to 0.0%, the impairment charge would increase by £7m.

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:

	2021 52 weeks £m	2020 52 weeks £m
Group income statement		
Revaluation deficit charged as an impairment	**(2)**	(93)
Reversal of past revaluation deficits	**53**	50
Total impairment reversal/(impairment charge) arising from the revaluation	**51**	(43)
Impairment of short leasehold and unlicensed properties	**(2)**	(7)
Impairment of freehold and long leasehold tenant's fixtures and fittings	**(3)**	(10)
Total impairment of short leaseholds, unlicensed properties and tenant's fixtures and fittings	**(5)**	(17)
Total impairment reversal/(impairment charge) recognised in the income statement	**46**	(60)
Group statement of other comprehensive income		
Unrealised revaluation surplus	**154**	77
Reversal of past revaluation surplus	**(4)**	(225)
Total movement recognised in other comprehensive income	**150**	(148)
Net increase/(decrease) in property, plant and equipment	**196**	(208)

The valuation techniques are consistent with the principles in IFRS 13 and use significant unobservable inputs such that the fair value measurement of each property within the portfolio has been classified as Level 3 in the fair value hierarchy.

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

	Number of pubs	Land and buildings £m	Fixtures, fittings and equipment £m	Net book value[a] £m
25 September 2021				
Freehold properties	**1,329**	**3,640**	**346**	**3,986**
Long leasehold properties	**94**	**262**	**29**	**291**
Total revalued properties	**1,423**	**3,902**	**375**	**4,277**
Short leasehold properties		**68**	**61**	**129**
Unlicensed properties		**15**	**2**	**17**
Other non-pub assets		**1**	**4**	**5**
Assets under construction		**10**	**4**	**14**
Total property, plant and equipment		**3,996**	**446**	**4,442**

	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

a. The carrying value of freehold and long leasehold properties based on their historical cost is £2,601m and £180m respectively (2020 £2,601m and £181m).

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 10 times	**9 to 10 times**	**8 to 9 times**	**7 to 8 times**	**Under 7 times**	**Total**
25 September 2021						
Number of pubs in each FMT income banding:						
< £200k pa	**70**	**40**	**99**	**140**	**26**	**375**
£200k to £360k pa	**15**	**110**	**168**	**115**	**46**	**454**
> £360k pa	**54**	**145**	**280**	**79**	**36**	**594**
	139	**295**	**547**	**334**	**108**	**1,423**

	Valuation multiple applied to FMT					
	Over 10 times	9 to 10 times	8 to 9 times	7 to 8 times	Under 7 times	Total
26 September 2020[a]						
Number of pubs in each FMT income banding:						
< £200k pa	65	9	65	113	126	378
£200k to £360k pa	8	35	174	158	80	455
> £360k pa	49	66	244	185	46	590
	122	110	483	456	252	1,423

a. The multiple bandings for 26 September 2020 have been amended in the current period, to assist with understanding the movement in the average weighted multiple to 25 September 2021.

Movements in valuation multiples between financial periods are the result of changes in property market conditions. The average weighted multiple is 8.4 (2020 8.1).

Notes to the consolidated financial statements continued

Section 3 – Operating assets and liabilities continued

3.1 Property, plant and equipment continued

Capital commitments

	2021 £m	2020 £m
Contracts placed for expenditure on property, plant and equipment not provided for in the consolidated financial statements	**10**	9

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.

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 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the 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 case 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 impairment is considered at a cash generating unit level, with this being an individual outlet, the carrying value used in the impairment test, is the total of the right-of-use asset value and the value held in property, plant and equipment. As such, the judgements used in the impairment review are the same as those described in note 3.1 on page 126.

Key sources of estimation uncertainty

As noted above, the impairment review of right-of-use assets is performed in combination with the impairment review of property, plant and equipment. The three key sources of estimation uncertainty are described in note 3.1 on page 126. They are, the estimation of forecast cash flows for each site; the selection of an appropriate discount rate and the selection of an appropriate long-term growth rate.

A sensitivity of changes in forecast cash flows, the discount rate and the long-term growth is provided on page 132. The carrying value of assets to which these estimates apply is £379m.

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	527	4	531
Additions[a]	9	1	10
Disposals	(2)	–	(2)
Foreign currency movements	1	–	1
At 26 September 2020	535	5	540
Additions[a]	24	1	25
Disposals	(2)	(1)	(3)
Foreign currency movements	(2)	–	(2)
At 25 September 2021	**555**	**5**	**560**
Accumulated depreciation and impairment			
At 28 September 2019	–	–	–
Transition to IFRS 16	65	–	65
Provided during the period	39	2	41
Disposals	(1)	–	(1)
Impairment	33	–	33
At 26 September 2020	136	2	138
Provided during the period	35	2	37
Disposals	(1)	(1)	(2)
Impairment	8	–	8
At 25 September 2021	**178**	**3**	**181**
Net book value			
At 25 September 2021	**377**	**2**	**379**
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 £nil (2020 £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 £nil (2020 £1m).

Notes to the consolidated financial statements continued
Section 3 – Operating assets and liabilities continued

3.2 Leases continued

Impairment review of right-of-use assets

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

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

Sensitivity analysis

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

Forecast cash flows

The forecast cash flows used in the value in use calculations are site level forecasts that form the overall Group profit forecast for FY 2022, in existence at the balance sheet date. Management have determined a potential downside scenario to this forecast which assumes a longer turnaround of profit back to pre-Covid-19 levels. The use of this downside forecast results in a reduction to EBITDA of 13.7% in FY 2022 against the FY 2022 base case forecast. This would result in 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 two financial periods, the discount rate used in impairment reviews has moved by 0.3%. It is estimated that either a 0.3% increase or decrease in this rate would generate no change to the recognised impairment charge.

Long-term growth rate

The long-term growth included in the value in use calculations is 2.0%. It is estimated that if the long term growth rate was reduced to 0.0%, the impairment charge would increase by £2m.

Lease liabilities

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

	2021 £m	2020 £m
Amounts payable under lease liabilities		
Due within one year	**65**	75
Due between one and two years	**62**	54
Due between two and three years	**41**	59
Due between three and four years	**45**	38
Due between four and five years	**41**	43
Due after five years	**490**	515
Total undiscounted lease liabilities	**744**	784
Less: impact of discounting	**(231)**	(243)
Present value of lease liabilities	**513**	541
Analysed as:		
Current lease liabilities – amounts due within twelve months	**50**	58
Non-current lease liabilities – amounts due after twelve months	**463**	483
	513	541

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

During the period, the Group has reached an agreement with a number of landlords to defer rent payments or waive a portion of rent that was due during periods of enforced pub closure as a result of Covid-19. The agreements impact periods from March 2020 through to November 2021.

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

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

In addition, rent waivers have been accounted for as if the change was not a lease modification. This has resulted in a total of £2m reduction to the lease liability. The reduction to lease liability has resulted in an increase of £1m to opening retained earnings, where the waiver relates to the previous financial period and £1m credit in the current period income statement, where the waiver relates to the current financial period.

Leases – Group as lessor

Accounting policies

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.

Group as lessor – Finance lease receivables

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

	2021 £m	2020 £m
Amounts receivable under finance leases		
Due within one year	**2**	2
Due between one and two years	**2**	2
Due between two and three years	**1**	2
Due between three and four years	**1**	2
Due between four and five years	**1**	1
Due after five years	**21**	23
Total undiscounted lease payments receivable	**28**	32
Less: unearned finance income	**(13)**	(15)
Present value of lease payments receivable	**15**	17
Net investment in the leases is analysed as:		
Current finance lease receivables – amounts due within twelve months	**1**	2
Non-current finance lease receivables – amounts due after twelve months	**14**	15
	15	17

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 expected credit loss (ECL). None of the finance lease receivables at the end of the reporting period is past due, however, taking into account the historical default experience and the future prospects of the tenants, the Directors of the Group have recognised a finance lease receivable impairment of £2m in the current period (2020 £nil).

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

Group as lessor – Operating leases

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:

	2021 £m	2020 £m
Due within one year	**8**	8
Due between one and two years	**7**	7
Due between two and three years	**7**	6
Due between three and four years	**6**	5
Due between four and five years	**5**	4
Due after five years	**30**	30
	63	60

The total value of future minimum sub-lease rental receipts included above is £3m (2020 £3m).

Notes to the consolidated financial statements continued
Section 3 – Operating assets and liabilities continued

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:

	2021 £m	2020 £m
Goods held for resale	**19**	22

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 4.3).

Trade and other receivables can be analysed as follows:

	2021 £m	2020 £m
Trade receivables	**9**	5
Other receivables	**12**	15
Coronavirus Job Retention Scheme receivable[a]	**–**	13
Gaming machine settlement receivable[b]	**20**	–
Prepayments	**7**	8
Total trade and other receivables	**48**	41

a. Amount due from HMRC in relation to the Coronavirus Job Retention Scheme, as described in note 2.3.
b. Expected claim amount due from HMRC in relation to a claim for VAT on gaming machines. See note 2.2.

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. A provision for expected credit loss of £6m (2020 £6m) has been recognised against trade and other receivables. Of this provision, £4m (2020 £4m) relates to a gross balance of £13m (2020 £9m) for trade receivables and £2m (2020 £2m) relates to a gross balance of £5m (2020 £5m) within other receivables.

Credit risk is considered in note 4.3.

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:

	2021 £m	2020 £m
Trade payables	**80**	69
Other taxation and social security	**61**	81
Accrued charges	**149**	133
Deferred income	**22**	16
Other payables	**21**	15
Total trade and other payables	**333**	314

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.

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.

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

Provisions can be analysed as follows:

	Onerous property provisions £m	Dilapidation provisions £m	Total property provisions £m
At 28 September 2019	35	1	36
Transferred to retained earnings on adoption of IFRS 16	(33)	–	(33)
Provided in the period	2	1	3
Utilised in the period	(1)	–	(1)
At 26 September 2020	3	2	5
Provided in the period	–	4	4
Utilised in the period	–	–	–
At 25 September 2021	**3**	**6**	**9**

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 remeasured 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 remeasured 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 remeasured 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.

Notes to the consolidated financial statements continued

Section 3 – Operating assets and liabilities continued

3.5 Goodwill and other intangible assets continued

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 28 September 2019	7	16	23
Additions	–	3	3
Disposals	–	(1)	(1)
At 26 September 2020	7	18	25
Additions	–	4	4
Disposals	–	(4)	(4)
At 25 September 2021	**7**	**18**	**25**
Accumulated amortisation and impairment			
At 28 September 2019	5	4	9
Provided during the period	–	3	3
Disposals	–	(1)	(1)
At 26 September 2020	5	6	11
Provided during the period	–	4	4
Disposals	–	(3)	(3)
At 25 September 2021	**5**	**7**	**12**
Net book value			
At 25 September 2021	**2**	**11**	**13**
At 26 September 2020	2	12	14
At 28 September 2019	2	12	14

With the exception of goodwill, 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 9.6% (2020 9.9%). For the purposes of the calculation of the recoverable amount, the cash flow projections beyond the two-year period include 2.0% (2020 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 28 September 2019	5
Share in associates results	(1)
At 26 September 2020	4
Share in associates results	1
At 25 September 2021	**5**

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. The carrying value relates to £5m (2020 £4m) for 3Sixty Restaurants Limited and £nil (2020 £nil) for Fatboy Pub Company Limited.

Forecast performance for 3Sixty Restaurants Limited has been reviewed in the light of Covid-19 as it trades 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 April 2021, 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. During the current period, and as a result of the Covid-19 pandemic impact on the hospitality sector, the life of the option has been extended such that the earliest date of exercise is 1 April 2023. The fair value of this option at 25 September 2021 is £1m (2020 £1m). This has been recognised as a financial asset at FVTPL (see note 4.3) and the gain deferred and recognised over the option life.

Notes to the consolidated financial statements continued

Section 4 – Capital structure and financing costs

4.1 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:

	2021 £m	2020 £m
Current		
Securitised debt[a,b]	**110**	104
Term loan[c]	**–**	100
Liquidity facility	**–**	9
Unsecured revolving credit facilities[d]	**(1)**	10
Overdraft[e]	**25**	15
Total current	**134**	238
Non-current		
Securitised debt[a,b]	**1,416**	1,542
Total borrowings	**1,550**	1,780

a. Further details of the assets pledged as security against the securitised debt are given on page 127.
b. Stated net of deferred issue costs.
c. The term loan held in the prior period was a drawing under a facility that was backed by the Coronavirus Large Business Interruption Loan Scheme. Further details are provided on page 139.
d. As at 25 September 2021 the amount of £(1)m represents unamortised issue costs.
e. 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 4.4).

	2021 £m	2020 £m
Analysis by year of repayment		
Due within one year or on demand	**134**	238
Due between one and two years	**142**	152
Due between two and five years	**390**	369
Due after five years	**884**	1,021
Total borrowings	**1,550**	1,780

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:

					Principal outstanding		
Tranche	Initial principal borrowed £m	Interest	Principal repayment period (all by instalments)	Effective interest rate %	**26 September 2021 £m**	28 September 2020 £m	Expected WAL[a]
A1N	200	Floating	2011 to 2028	6.61[b]	**99**	110	4 years
A2	550	Fixed – 5.57%	2003 to 2028	5.72	**180**	201	4 years
A3N	250	Floating	2011 to 2028	6.69[b]	**123[c]**	138[c]	4 years
A4	170	Floating	2016 to 2028	6.37[b]	**116**	128	4 years
AB	325	Floating	2020 to 2032	6.28[b]	**305**	318	7 years
B1	350	Fixed – 5.97%	2003 to 2023	6.12	**46**	66	1 year
B2	350	Fixed – 6.01%	2015 to 2028	6.12	**270**	282	5 years
C1	200	Fixed – 6.47%	2029 to 2030	6.56	**200**	200	8 years
C2	50	Floating	2033 to 2034	6.47[b]	**50**	50	12 years
D1	110	Floating	2034 to 2036	6.68[b]	**110**	110	14 years
	2,555				**1,499**	1,603	

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 £151m (2020 £182m). Therefore the exchange difference on the A3N notes is £28m (2020 £44m).

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% (2020 6.3%) 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.

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 prior 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 were obtained, as detailed in the Annual Report and Accounts 2020. During the current period a series of further amendments and waivers to the securitisation covenants were obtained as follows:

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

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

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

	2021 £m	2020 £m
Principal outstanding at beginning of period	**1,647**	1,753
Principal repaid during the period	**(107)**	(99)
Net principal receipts on cross currency swap	**3**	4
Exchange on translation of dollar loan notes	**(16)**	(11)
Principal outstanding at end of period	**1,527**	1,647
Deferred issue costs	**(3)**	(4)
Accrued interest	**2**	3
Carrying value at end of period	**1,526**	1,646

Liquidity facility

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

During the prior 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 were repaid in full by 15 March 2021. This waiver has been extended during the current period, such that full repayment was not required by 15 March 2021, with all drawings now required to be repaid in full by 15 December 2021. The amount drawn at 25 September 2021 is £nil (2020 £9m). Further details of the covenant waivers and amendments obtained are provided within the going concern review on pages 111 to 112.

Unsecured revolving credit facilities

At the start of the period the Group held unsecured committed revolving credit facilities totalling £150m (comprising three £50m bilateral facilities) and an uncommitted overdraft facility of £5m, available for general corporate purposes. The unsecured committed revolving credit facilities were fully drawn at £150m during the period and subsequently repaid and cancelled on 12 March 2021. These facilities were replaced with a single unsecured committed revolving credit facility of £150m. The new committed facility expires on 14 February 2024. The amount drawn at 25 September 2021 is £nil (2020 £10m).

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. During the period these facilities were repaid and cancelled. The amount drawn at 25 September 2021 is £nil (2020 £100m).

Notes to the consolidated financial statements continued
Section 4 – Capital structure and financing costs continued

4.2 Finance costs and income

	2021 52 weeks £m	2020 52 weeks £m
Finance costs		
Interest on securitised debt	**(98)**	(105)
Interest on other borrowings	**(7)**	(6)
Interest on lease liabilities	**(17)**	(17)
Total finance costs	**(122)**	(128)
Finance income		
Interest receivable – cash	**2**	1
Net pensions finance charge (note 4.5)	**(3)**	(4)

4.3 Financial instruments

Accounting policies

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

Financial assets

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

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

Impairment of financial assets

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

The Group adopts the simplified approach detailed in IFRS 9 for trade receivables and 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).

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 the simplified approach was used.

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

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

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

Financial liabilities
The Group has financial liabilities relating to borrowings, for which the accounting policy is provided in note 4.1. 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.

Notes to the consolidated financial statements continued
Section 4 – Capital structure and financing costs continued

4.3 Financial instruments continued

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

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

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

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

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in the hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

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

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

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

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

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

The current funding arrangements of the Group consist of the securitised notes issued by Mitchells & Butlers Finance plc (and associated liquidity facility) along with an unsecured committed revolving credit facility of £150m. 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 note 4.1 and in the going concern review on pages 111 to 112. 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
25 September 2021							
Securitised debt – loan notes	**(167)**	**(169)**	**(172)**	**(174)**	**(176)**	**(991)**	**(1,849)**
Derivative financial liabilities (settled net)	**(37)**	**(35)**	**(32)**	**(29)**	**(26)**	**(109)**	**(268)**
Derivative financial asset receipts	**19**	**19**	**20**	**21**	**22**	**52**	**153**
Derivative financial asset payments	**(15)**	**(16)**	**(16)**	**(17)**	**(18)**	**(43)**	**(125)**
Fixed rate: Securitised debt	**(200)**	**(201)**	**(200)**	**(199)**	**(198)**	**(1,091)**	**(2,089)**
Lease liabilities	**(65)**	**(62)**	**(41)**	**(45)**	**(41)**	**(490)**	**(744)**
Trade payables	**(80)**	**–**	**–**	**–**	**–**	**–**	**(80)**
Other payables	**(21)**	**–**	**–**	**–**	**–**	**–**	**(21)**
Accrued charges	**(149)**	**–**	**–**	**–**	**–**	**–**	**(149)**
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)	(2,291)
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)

Credit risk

The Group Treasury function enters into contracts with third parties in respect of the investment of surplus funds and derivative financial instruments for risk management purposes. These activities expose the Group to credit risk against the counterparties. To mitigate this exposure, Group Treasury operates policies that restrict the general 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). An exception to this policy has been agreed for one counterparty to the Group's swaps whose short term rating is 'A2'/'P2'/'F1'. The minimum long term rating of any Group counterparty during the year was 'A'. Counterparties to derivative financial instruments 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 maximum investment exposure with any counterparty during the year was £50m (2020 £50m). The Group held investments with 11 counterparties during the year (2020 10). 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 increased in the prior period in relation to trade receivables due to trading restrictions imposed on tenants and an additional expected credit loss allowance was recognised on trade receivables. In the assessment for the current period, there has been no further increase in risk and as a result the expected credit loss allowance has not been increased in the current period.

Notes to the consolidated financial statements continued
Section 4 – Capital structure and financing costs continued

4.3 Financial instruments continued

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

	FVTPL £m	12 month ECL £m	Lifetime ECL £m	Total £m
25 September 2021:				
Cash and cash equivalents[a]	**–**	**227**	**–**	**227**
Trade receivables[b]	**–**	**–**	**9**	**9**
Other receivables[b]	**–**	**12**	**–**	**12**
Finance lease receivables[c]	**–**	**–**	**15**	**15**
Derivatives	**29**	**–**	**–**	**29**
26 September 2020:				
Cash and cash equivalents[a]	–	158	–	158
Trade receivables[b]	–	–	5	5
Other receivables[b]	–	15	–	15
Finance lease receivables[c]	–	–	17	17
Derivatives	45	–	–	45

a. Cash and cash equivalents as presented in the cash flow statement. This is presented net of an overdraft within a cash pooling arrangement, to which the Group has a legal right of offset.
b. Trade receivables and other receivables are shown net of an expected credit loss allowance, as shown in note 3.3.
c. 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 4.4) 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 4.1). 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 111 to 112.

Total capital at the balance sheet date is as follows:

	2021 £m	2020 £m
Net debt excluding leases (note 4.4)	**1,270**	1,563
Total equity	**2,104**	1,677
Total capital	**3,374**	3,240

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 £151m (2020 £182m) and form part of the securitised debt (see note 4.1).

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 (2020 £nil) impact on the reported Group profit and £15m (2020 £18m) 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 £1.5bn 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.

A number of the Group's financial instruments have LIBOR as their reference rate. The Group has now completed the necessary amendments to transition its financing arrangements in advance of the discontinuation of LIBOR as a floating reference rate, replacing LIBOR with a Sterling Overnight Index Average (SONIA) based rate in respect of Sterling and a Secured Overnight Financing Rate (SOFR) based rate in respect of US Dollars. The amendments in respect of the securitised bonds were agreed by the Bondholders through a formal consent solicitation process and bilateral agreements were reached with securitised swap and liquidity facility providers (using amended reference rates consistent with those agreed under the bonds). The liquidity facility transitioned during the year to reference SONIA. All other relevant facilities and agreements referencing Sterling LIBOR will transition to reference SONIA for periods commencing on or after 1st January 2022 and those currently referencing US Dollar LIBOR will transition to SOFR for periods commencing on or after 1st July 2023. The unsecured committed facility was arranged on a SONIA basis in February 2021, so did not require any further amendment.

In the current period, the interest rate exposure has decreased as a result of the repayment of the floating rate term loan (see note 4.1). 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:

	2021 £m	2020 £m
Interest income[a]	**1**	1
Interest expense[b]	**–**	(2)
Profit impact	**1**	(1)
Derivative financial instruments (fair values)[c]	**54**	64
Total equity	**55**	63

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:

	2021 52 weeks £m	2020 52 weeks £m
Gains/(losses) arising during the period	**32**	(43)
Reclassification adjustments for losses included in profit or loss within finance costs	**56**	48
	88	5

Cash flow hedges – securitised borrowings

The nominal and carrying values of cash flow hedges at the balance sheet date, together with the changes in fair value of cash flow hedges during the period, are shown below.

	Nominal amount of hedging instrument £m	Carrying amount of hedging instrument		Changes in fair value used for calculating hedge ineffectiveness £m
		Assets £m	Liabilities £m	
2021				
Interest rate risk				
– 10 interest rate swaps	**803**		**(209)**	**88**
Foreign exchange risk				
– Cross currency swap	**124**	**28**		**(16)**
2020				
Interest rate risk				
– 10 interest rate swaps	855		(297)	5
Foreign exchange risk				
– Cross currency swap	138	44		(11)

Notes to the consolidated financial statements continued

Section 4 – Capital structure and financing costs continued

4.3 Financial instruments continued

The cash flows on the interest rate swaps occur quarterly, receiving a floating rate of interest based on LIBOR and paying a fixed rate of 4.8229% (2020 4.8316%). The contract maturity dates match those of the hedged item. No hedge ineffectiveness on the interest rate swaps was recognised in profit or loss in the current or prior period.

The cash flows on the cross currency swap occurred 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 £181m (2020 £253m).

The position at 25 September 2021 is as follows.

	Gross position £m	Positions netted in balance sheet £m	Balance sheet position £m	Positions that could be net in balance sheet but are not £m	Overall net exposure £m
Counterparty A – interest rate swaps	**(86)**	**–**	**(86)**	**–**	**(86)**
Counterparty B – interest rate swaps	**(123)**	**–**	**(123)**	**28**	**(95)**
Net interest rate swaps	**(209)**	**–**	**(209)**	**28**	**(181)**
Counterparty B – cross currency swap liability	**(125)**	**125**	**–**	**–**	**–**
Counterparty B – cross currency swap asset	**153**	**(125)**	**28**	**(28)**	**–**
Net cross currency swap	**28**	**–**	**28**	**(28)**	**–**
Total	**(181)**		**(181)**	**–**	**(181)**

The position at 26 September 2020 is as follows.

	Gross position £m	Positions netted in balance sheet £m	Balance sheet position £m	Positions that could be net in balance sheet but are not £m	Overall net exposure £m
Counterparty A – interest rate swaps	(120)	–	(120)	–	(120)
Counterparty B – interest rate swaps	(177)	–	(177)	44	(133)
Net interest rate swaps	(297)	–	(297)	44	(253)
Counterparty B – cross currency swap liability	(140)	(140)	–	–	–
Counterparty B – cross currency swap asset	184	140	44	(44)	–
Net cross currency swap	44	–	44	(44)	–
Total	(253)	–	(253)	–	(253)

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. During the current period, and as a result of the Covid-19 pandemic impact on the hospitality sector, the life of the option has been extended such that the earliest date of exercise is 1 April 2023. The fair value of this option at 25 September 2021 is £1m (2020 £1m). This is recognised as a financial asset and the gain deferred and recognised over the option life.

Fair values of derivative financial instruments

The fair values of the derivative financial instruments were measured at 25 September 2021 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
Derivatives at FV designated in cash flow hedges:					
– Interest rate swaps	**–**	**–**	**(37)**	**(172)**	**(209)**
– Cross currency swap	**28**	**–**	**–**	**–**	**28**
Share options at FVTPL	**1**	**–**	**–**	**–**	**1**
25 September 2021	**29**	**–**	**(37)**	**(172)**	**(180)**
26 September 2020	45	–	(40)	(257)	(252)

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 25 September 2021 are represented by:

	At 26 September 2020 £m	Cash movements £m	Fair value movements £m	At 25 September 2021 £m
Cash flow hedges	**(253)**	**40**	**32**	**(181)**
Share options	**1**	**–**	**–**	**1**
Total derivatives	**(252)**	**40**	**32**	**(180)**

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)	32	(38)	(253)
Share options	1	–	–	1
Total derivatives	(246)	32	(38)	(252)

Fair value of financial assets and liabilities

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

	2021		2020	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Financial assets at amortised cost:				
– Cash and cash equivalents	**252**	**252**	173	173
– Trade receivables	**9**	**9**	5	5
– Other receivables	**12**	**12**	15	15
– Gaming machine settlement receivable	**20**	**20**	–	–
– Coronavirus Job Retention Scheme receivable	**–**	**–**	13	13
– Finance lease receivables	**15**	**15**	17	17
	308	**308**	223	223
Financial assets – derivatives at FVTPL:				
– Derivative instruments in designated hedge accounting relationships	**28**	**28**	44	44
– Share options	**1**	**1**	1	1
	29	**29**	45	45
Financial liabilities at amortised cost:				
– Borrowings (note 4.1)	**(1,550)**	**(1,516)**	(1,780)	(1,584)
– Lease liabilities	**(513)**	**(513)**	(541)	(541)
– Trade payables	**(80)**	**(80)**	(69)	(69)
– Accrued charges	**(149)**	**(149)**	(133)	(133)
– Other payables	**(21)**	**(21)**	(15)	(15)
	(2,313)	**(2,279)**	(2,538)	(2,342)
Financial liabilities – derivatives at FVTPL:				
– Derivative instruments in designated hedge accounting relationships	**(209)**	**(209)**	(297)	(297)

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.

Notes to the consolidated financial statements continued

Section 4 – Capital structure and financing costs continued

4.3 Financial instruments continued

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 25 September 2021	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets:				
Currency swaps	**–**	**28**	**–**	**28**
Share options (see note 3.6)	**–**	**–**	**1**	**1**
Financial liabilities:				
Interest rate swaps	**–**	**(209)**	**–**	**(209)**
	–	**(181)**	**1**	**(180)**

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)

4.4 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 4.3). Cash flows on the interest rate and cross currency swaps are shown within interest paid in the Group cash flow statement.

Net debt

	Note	2021 £m	2020 £m
Cash and cash equivalents		252	173
Overdraft	4.1	(25)	(15)
Cash and cash equivalents as presented in the cash flow statement[a]		227	158
Securitised debt	4.1	(1,526)	(1,646)
Term loan[b]	4.1	–	(100)
Unsecured revolving credit facility	4.1	1	(10)
Liquidity facility	4.1	–	(9)
Derivatives hedging securitised debt[c]	4.1	28	44
Net debt excluding leases		(1,270)	(1,563)
Lease liabilities		(513)	(541)
Net debt including leases		**(1,783)**	**(2,104)**

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 drawing in the prior period is a drawing under a facility that was backed by the Coronavirus Large Business Interruption Loan Scheme. This drawing has been fully repaid in the current period. Further details provided in note 4.1.
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

	2021 52 weeks £m	2020 52 weeks £m
Net increase in cash and cash equivalents	70	24
Add back cash flows in respect of other components of net debt:		
Principal repayments on securitised debt	107	99
Principal receipts on cross currency swap	(17)	(18)
Principal payments on cross currency swap	14	14
Repayment/(drawdown) of term loan (note 4.1)	100	(100)
Repayment/(drawdown) of unsecured revolving credit facilities	10	(10)
Repayment/(drawdown) of liquidity facility	9	(9)
Decrease in net debt arising from cash flows	293	–
Movement in capitalised debt issue costs net of accrued interest	1	–
Decrease in net debt excluding leases	294	–
Opening net debt excluding leases	(1,563)	(1,564)
Foreign exchange movements on cash	(1)	1
Closing net debt excluding leases	(1,270)	(1,563)

Movement in lease liabilities:

	2021 52 weeks £m	2020 52 weeks £m
Opening lease liabilities	(541)	–
Transition to IFRS 16	–	(545)
Additions[a]	(22)	(10)
Covid-19 rent concessions[b]	2	–
Interest charged during the period	(17)	(17)
Repayment of principal	41	22
Payment of interest	21	8
Disposals	1	2
Foreign currency movements	2	(1)
Closing lease liabilities	(513)	(541)

a. Additions to lease liabilities include new leases and lease extensions or rent reviews relating to existing leases.
b. During the period, the Group has reached agreement with a number of landlords to waive a portion of rent that was due during periods of enforced pub closure as a result of Covid-19. See note 3.2.

Notes to the consolidated financial statements continued

Section 4 – Capital structure and financing costs continued

4.4 Net debt continued

The movement in net debt including leases for the 52 weeks ended 25 September 2021 is represented by:

	At 26 September 2020 £m	Cash flow movements in the period £m	Non-cash movements in the period £m	Foreign currency movements £m	At 25 September 2021 £m
Securitised debt	**(1,646)**	**107**	**–**	**13**	**(1,526)**
Derivatives hedging securitised debt	**44**	**(3)**	**–**	**(13)**	**28**
	(1,602)	**104**	**–**	**–**	**(1,498)**
Liquidity facility	**(9)**	**9**	**–**	**–**	**–**
Term loan	**(100)**	**100**	**–**	**–**	**–**
Revolving credit facilities	**(10)**	**11**	**–**	**–**	**1**
Lease liabilities[a]	**(541)**	**62**	**(36)**	**2**	**(513)**
Total liabilities arising from financing activities	**(2,262)**	**286**	**(36)**	**2**	**(2,010)**
Cash and cash equivalents	**158**	**70**	**–**	**(1)**	**227**
Net debt including leases	**(2,104)**	**356**	**(36)**	**1**	**(1,783)**

a. Cash movements of £62m relate to £41m repayment of principal on lease liabilities and £21m of interest paid on lease liabilities.

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 £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)	–	99	–	7	(1,646)
Derivatives hedging securitised debt	55	–	(4)	–	(7)	44
	(1,697)		95	–	–	(1,602)
Liquidity facility	–	–	(9)	–	–	(9)
Term loan	–	–	(100)	–	–	(100)
Revolving credit facilities	–	–	(10)	–	–	(10)
Lease liabilities[a]	–	(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. Cash movements of £30m relate to £22m repayment of principal on lease liabilities and £8m of interest paid on lease liabilities.

4.5 Pensions

Accounting policies

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 25 September 2021. Schemes' assets are stated at market value at 25 September 2021 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. IAS 19 (revised) requires that the schemes' liabilities are discounted using market yields at the end of the period on high-quality corporate bonds.

On 12 November 2021 the High Court ruled on the court hearing between Mitchells & Butlers plc ("the Company") and Mitchells & Butlers Pensions Limited ("the Trustee") in relation to who has the power to decide the measure of inflation to be applied to pension increases for certain members.

The existing Trust Deed and Rules in respect of the Mitchells & Butlers Pension Plan gave the Company the power to determine which measure of inflation should be applied to increases. In reliance on that power, the Company requested the Trustee to apply inflation-related increases based on CPI instead of RPI with effect from 2018. However, the Trustee believed that this power was vested to the Company in error and, in the absence of mutual agreement, made an application to the Court to seek clarification.

The judgement made by the Court in relation to the Trustee's application held that there had indeed been an error, and the rules should be rectified as requested by the Trustee. Therefore, it is now clear that the rules of the Plan can now be rectified to remove the Company's power to determine the annual inflation rate at which pensions are increased, and to re-insert the Trustee's power to change the index used for pension increases. As a result, pensions will be increased in line with RPI unless the Trustee decides to exercise its power to apply another index at some point in the future. This decision has no effect on the Plan's funding position, or the schedule of contributions payable by the Company, which have consistently been calculated assuming RPI indexation.

Members who have, since 2018, received annual inflation-related increases based upon CPI rather than RPI, will receive a further pension payment to reflect the difference between RPI and CPI in respect of those increases, together with interest. A cap of 5% to the inflation-related increases will still apply irrespective of whether payments are calculated by reference to RPI or CPI. As a result the additional liability resulting from any backdated pension increases at RPI (capped at 5%) and the subsequent increase in future liability that arises from this higher base position has been included in the actuarial liability at 25 September 2021. There is no impact on the total pension liability as, 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.

Notes to the consolidated financial statements continued

Section 4 – Capital structure and financing costs continued

4.5 Pensions continued

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

	2021		2020	
	Main plan	**Executive plan**	Main plan	Executive plan
Discount rate[a]	**1.9%**	**1.9%**	1.6%	1.6%
Pensions increases – RPI max 5%	**3.3%**	**3.3%**	2.8%	2.8%
Inflation rate – RPI	**3.5%**	**3.5%**	2.9%	2.9%

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:

	2021		2020	
	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). In the prior period, given the outbreak of the Covid-19 pandemic and the enforced temporary closure of the business at the end of March 2020, the Company agreed with the Trustee that contributions would be suspended for the months of April to September 2020, with these being added onto the end of the agreed recovery plan so that these contributions will be paid during the second half of FY 2023. Subsequent to the national lockdown which commenced on 5 January 2021, the Company agreed a further deferral of contributions covering January to March 2021 with these contributions subsequently being settled in full on 22 April 2021.

Under IFRIC 14, 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 24 September 2022 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.

2021	**Increase/ (decrease) in actuarial surplus 2021 £m**	**Decrease/ (increase) in total pension liabilities 2021 £m**
0.3% increase in discount rate	**127**	**2**
0.4% increase in inflation rate	**(136)**	**(2)**
Additional one-year decrease to life expectancy	**93**	**2**

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

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	**2021 52 weeks £m**	2020 52 weeks £m
Operating profit:		
Employer contributions (defined contribution plans) (note 2.3)	**(13)**	(13)
Administrative costs (defined benefit plans)	**(5)**	(2)
Charge to operating profit before separately disclosed items	**(18)**	(15)
Past service cost (note 2.2)	**(3)**	–
Charge to operating profit	**(21)**	(15)
Finance costs:		
Net pensions finance income on actuarial surplus	**5**	5
Additional pensions finance charge due to minimum funding	**(8)**	(9)
Net finance charge in respect of pensions	**(3)**	(4)
Total charge	**(24)**	(19)

Group statement of comprehensive income	**2021 52 weeks £m**	2020 52 weeks £m
Return on scheme assets and effects of changes in assumptions	**19**	(22)
Movement in pension liabilities recognised due to minimum funding	**(10)**	25
Remeasurement of pension liabilities	**9**	3

Group balance sheet	**2021 £m**	2020 £m
Fair value of schemes' assets	**2,808**	2,736
Present value of schemes' liabilities	**(2,438)**	(2,434)
Actuarial surplus in the schemes	**370**	302
Additional liabilities recognised due to minimum funding	**(513)**	(495)
Total pension liabilities[a]	**(143)**	(193)
Associated deferred tax asset (note 2.4)	**31**	36

a. The total pension liabilities of £143m (2020 £193m) is presented as a £51m current liability (2020 £51m) and a £92m non-current liability (2020 £142m).

Notes to the consolidated financial statements continued

Section 4 – Capital structure and financing costs continued

4.5 Pensions continued

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

	Schemes' assets	
	2021 £m	2020 £m
Fair value of schemes' assets at beginning of period	**2,736**	2,739
Interest income	**44**	48
Remeasurement gain:		
– Return on schemes' assets (excluding amounts included in net finance charge)	**67**	33
Additional employer contributions	**52**	25
Benefits paid	**(86)**	(107)
Administration costs	**(5)**	(2)
At end of period	**2,808**	2,736

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

	Defined benefit obligation	
	2021 £m	2020 £m
Present value of defined benefit obligation at beginning of period	**(2,434)**	(2,443)
Interest cost	**(39)**	(43)
Past service cost	**(3)**	–
Benefits paid	**86**	107
Remeasurement losses:		
– Effect of changes in financial assumptions	**(62)**	(26)
– Effect of experience adjustments	**14**	(29)
At end of period[a]	**(2,438)**	(2,434)

a. The defined benefit obligation comprises £39m (2020 £39m) relating to the MABETUS unfunded plan and £2,399m (2020 £2,395m) relating to the funded plans.

The weighted average duration of the defined benefit obligation is 19 years (2020 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:

	2021 £m	2020 £m
Cash and equivalents	**118**	22
Equity instruments	**271**	548
Debt instruments:		
– Bonds	**2,473**	2,517
– Real estate debt	**50**	71
– Infrastructure debt	**134**	128
– Secured income debt	**384**	152
– Absolute return bond funds	**265**	259
– Gilt repurchase transactions	**(906)**	(982)
Gold	**6**	11
Forward foreign exchange contracts	**13**	10
Fair value of assets	**2,808**	2,736

The actual investment return achieved on schemes' assets over the period was 4.1% (2020 3.2%), which represented a gain of £112m (2020 £86m).

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

In the 52 weeks ended 25 September 2021 the Group paid £13m (2020 £13m) in respect of the defined contribution arrangements, with an additional £3m (2020 £3m) outstanding as at the period end.

At 25 September 2021 the MABPP owed £nil (2020 £nil) to the Group in respect of expenses paid on its behalf. This amount is included in other receivables in note 3.2.

4.6 Share-based payments

Accounting policy

The Group operates a number of equity-settled share-based compensation plans, whereby, subject to meeting any relevant conditions, employees are awarded shares or rights over shares. The cost of such awards is measured at fair value, excluding the effect of non market-based vesting conditions, on the date of grant. The expense is recognised on a straight-line basis over the vesting period and is adjusted for the estimated effect of non market-based vesting conditions and forfeitures, on the number of shares that will eventually vest due to employees leaving the employment of the Group. Fair values are calculated using either the Black-Scholes, Binomial or Monte Carlo simulation models depending on the conditions attached to the particular share scheme.

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

Schemes in operation

The net charge recognised for share-based payments in the period was £3m (2020 £2m).

The Group had five equity-settled share schemes (2020 four) in operation during the period: the Restricted Share Plan (RSP); 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 79 to 96.

The fair value of awards under the Restricted Share Plan, the Share Incentive Plan and the Short Term Deferred Incentive Plan are equal to the share price on the date they are granted 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. There were no awards under the Short Term Deferred Incentive Plan in the current period and no awards under the Share Incentive Plan in the prior period. The fair value of options granted under these schemes is shown below.

Fair value of options granted

	2021	2020
Share Incentive Plan	**285.8p**	–
Restricted Share Plan	**313.6p**	–
Short Term Deferred Incentive Plan	–	466.9p

The following table sets out weighted average information about how the fair value of the Sharesave Plan option grants were calculated. There were no grants under the Sharesave Plan in the prior period.

	2021 Sharesave Plan
Valuation model	**Black-Scholes**
Weighted average share price	**285.8p**
Exercise price	**256.0p**
Expected dividend yield	–
Risk-free interest rate	**0.32%**
Volatility[a]	**41.9%**
Expected life (years)[b]	**4.1**
Weighted average fair value of grants during the period	**105.7p**

a. 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.
b. The expected life of the options represents the average length of time between grant date and exercise date.

Open Offer impact

On 12 March 2021, the Group completed a fully underwritten Open Offer share issue to existing shareholders on the basis of 7 shares for every 18 fully paid ordinary shares held. The impact of this is described in note 4.7. As a result, the exercise price for all existing SAYE schemes were reduced and the number of options increased, to ensure that option holders would not be disadvantaged by a dilution of shares. Similarly, the number of options under the existing PRSP schemes were increased, to ensure that option holders were also not disadvantaged.

Notes to the consolidated financial statements continued

Section 4 – Capital structure and financing costs continued

4.6 Share-based payments continued

The weighted average inputs used to calculated the fair value of the incremental options granted under the sharesave plan are as follows.

Valuation model	2021 Open Offer Sharesave Plan Black-Scholes
Weighted average share price	**326.5p**
Exercise price	**216.6p**
Expected dividend yield	**–**
Risk-free interest rate	**0.05%**
Volatility[a]	**73.3%**
Expected life (years)[b]	**1.5**
Weighted average fair value of grants during the period	**152.5p**

The fair value of incremental options granted under the PRSP schemes was £nil.

The incremental fair value of the options granted as a result of the Open Offer is £1m. This has been recognised over the remaining vesting period of the options.

Scheme movements in the period

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

	Number of shares		Weighted average exercise price	
Sharesave Plan	**2021 m**	2020 m	**2021 p**	2020 p
Outstanding at the beginning of the period	**3.4**	5.0	**239.9**	244.0
Adjustment for Open Offer	**0.3**	–	**216.6**	–
Granted	**2.9**	–	**256.0**	–
Exercised	**(0.2)**	(0.6)	**200.8**	270.0
Forfeited	**(0.5)**	(0.9)	**222.6**	239.8
Expired	**(0.5)**	(0.1)	**210.3**	270.9
Outstanding at the end of the period	**5.4**	3.4	**238.3**	239.9
Exercisable at the end of the period	**–**	–	**–**	–

The outstanding options for the SAYE scheme had an exercise price of between 199.4p and 256.0p (2020 between 221.0p and 362.0p) and the weighted average remaining contract life was 2.9 years (2020 2.1 years). The number of forfeited shares in the period includes 353,133 (2020 581,665) cancellations.

SAYE options were exercised on a range of dates. The average share price through the period was 268.0p (2020 283.0p).

	Number of shares	
Share Incentive Plan	**2021 m**	2020 m
Outstanding at the beginning of the period	**1.8**	1.9
Granted	**0.3**	–
Exercised	**(0.2)**	(0.1)
Outstanding at the end of the period	**1.9**	1.8
Exercisable at the end of the period	**1.5**	0.8

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

	Number of shares	
Restricted Share Plan	**2021 m**	2020 m
Outstanding at the beginning of the period	**–**	–
Granted	**1.0**	–
Outstanding at the end of the period	**1.0**	–
Exercisable at the end of the period	**–**	–

The weighted average remaining contract life of the RSP options was 2.2 years (2020 nil).

Performance Restricted Share Plan	Number of shares 2021 m	2020 m
Outstanding at the beginning of the period	**5.6**	6.2
Adjustment for Open Offer	**0.4**	–
Granted	**–**	1.3
Exercised	**(0.1)**	(0.9)
Forfeited	**(0.2)**	(0.1)
Expired	**(2.1)**	(0.9)
Outstanding at the end of the period	**3.6**	5.6
Exercisable at the end of the period	**–**	–

The weighted average remaining contract life of the PRSP options was 2.6 years (2020 3.0 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	2021 Number of shares	2021 £m	2020 Number of shares	2020 £m
Allotted, called up and fully paid				
Ordinary shares of 8¹³⁄₂₄p each				
At start of period	**429,201,117**	**37**	428,577,760	37
Share capital issued[a]	**480,126**	**–**	623,357	–
Open Offer issued[b]	**166,937,606**	**14**	–	–
At end of period	**596,618,849**	**51**	429,201,117	37

a. The Company issued 480,126 (2020 623,357) shares during the period under share option schemes for a consideration of £nil (2020 £nil). There were no dividends declared in the current period.
b. On 12 March 2021, the Group completed a fully underwritten Open Offer share issue to existing shareholders on the basis of 7 shares for every 18 fully paid ordinary shares held. As a result, a total of 166,937,606 ordinary shares with an aggregate nominal value of £14m were issued for cash consideration of £351m. Transaction costs of £9m were incurred which were directly attributable to the issuance of the new shares, resulting in £328m being recognised in share premium and net cash proceeds of £342m. Earnings per share figures for the comparative period have been restated to reflect the bonus element of the Open Offer as shown in note 2.5.

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 £328m (2020 £2m) has been recognised on shares issued in the period, primarily as a result of the Open Offer as described above.

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.

Notes to the consolidated financial statements continued
Section 4 – Capital structure and financing costs continued

4.7 Equity continued

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 277,144 shares at a cost of £1m (2020 750,000 shares at a cost of £2m) and subscribed for 258,915 shares (2020 nil) at a cost of £nil (2020 £nil). The employee share trusts released 355,632 (2020 1,078,350) shares to employees on the exercise of options and other share awards for a total consideration of £nil (2020 £nil). The 2,667,858 shares held by the trusts at 25 September 2021 had a market value of £7m (2020 2,487,431 shares held had a market value of £3m).

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 25 September 2021, the trustees, Equiniti Share Plan Trustees Limited, held 1,853,883 (2020 1,768,611) shares in the Company. Of these shares, 704,622 (2020 604,404) shares are unconditionally available to employees, 509,442 (2020 479,097) shares have been conditionally awarded to employees, 618,682 (2020 607,225) shares have been awarded to employees but are still required to be held within the SIP Trust and the remaining 21,137 (2020 77,885) 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 Restricted Share Plan, 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 25 September 2021, the trustees, Sanne Fiduciary Services Limited, were holding 813,975 (2020 718,820) 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 £2,203m at 25 September 2021 (2020 £2,226m). Its ability to distribute these reserves by way of dividends is restricted by the securitisation covenants (see note 4.1).

Section 5 – Other notes

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:

	2021 52 weeks £m	2020 52 weeks £m
Short-term employee benefits	**3**	3

Movements in share options held by the Directors of Mitchells & Butlers plc are summarised in the Report on Directors' remuneration on pages 79 to 96.

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	
	2021 52 weeks £000	2020 52 weeks £000	**2021 52 weeks £000**	2020 52 weeks £000
Rent charged	**666**	719	**37**	50
Sales of goods and services	**447**	521	**5**	4
Loans	**–**	–	**–**	4
	1,113	1,240	**42**	58

The balance due from 3Sixty Restaurants Limited at 25 September 2021 was £691,000 (2020 £385,000).

The balance due from Fatboy Pub Company at 25 September 2021 was £57,000 (2020 £11,000), net of a provision of £179,000 (2020 £179,000).

Notes to the consolidated financial statements continued
Section 5 – Other notes continued

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
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		Leisure retailing
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 25 September 2021 by virtue of sections 479A and 479C of the Companies Act 2006.

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

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

Associates

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

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

5.3 Post balance sheet events

On 12 November 2021 the High Court ruled on the court hearing between Mitchells & Butlers plc ("the Company") and Mitchells & Butlers Pensions Limited ("the Trustee") in relation to who has the power to decide the measure of inflation to be applied to pension increases for certain members.

The existing Trust Deed and Rules in respect of the Mitchells & Butlers Pension Plan gave the Company the power to determine which measure of inflation should be applied to increases. In reliance on that power, the Company requested the Trustee to apply inflation-related increases based on CPI instead of RPI with effect from 2018. However, the Trustee believed that this power was vested to the Company in error and, in the absence of mutual agreement, made an application to the Court to seek clarification.

The judgement made by the Court in relation to the Trustee's application held that there had indeed been an error, and the rules should be rectified as requested by the Trustee. Therefore, it is now clear that the rules of the Plan can now be rectified to remove the Company's power to determine the annual inflation rate at which pensions are increased, and to re-insert the Trustee's power to change the index used for pension increases. As a result, pensions will be increased in line with RPI unless the Trustee decides to exercise its power to apply another index at some point in the future. This decision has no effect on the Plan's funding position, or the schedule of contributions payable by the Company, which have consistently been calculated assuming RPI indexation.

Members who have, since 2018, received annual inflation-related increases based upon CPI rather than RPI, will receive a further pension payment to reflect the difference between RPI and CPI in respect of those increases, together with interest. A cap of 5% to the inflation-related increases will still apply irrespective of whether payments are calculated by reference to RPI or CPI.

There is no impact on the reported balance sheet position as described in note 4.5.

5.4 Five year review

	2021 52 weeks £m	2020 52 weeks £m	2019 52 weeks £m	2018 52 weeks £m	2017 53 weeks £m
Revenue	**1,065**	1,475	2,237	2,152	2,180
Operating profit before separately disclosed items	**29**	99	317	303	314
Separately disclosed items	**52**	(91)	(20)	(48)	(106)
Operating profit	**81**	8	297	255	208
Finance costs	**(122)**	(128)	(114)	(119)	(125)
Finance income	**2**	1	1	1	1
Net pensions finance charge	**(3)**	(4)	(7)	(7)	(7)
(Loss)/profit before taxation	**(42)**	(123)	177	130	77
Tax (charge)/credit	**(23)**	11	(34)	(26)	(14)
(Loss)/profit for the period	**(65)**	(112)	143	104	63

Mitchells & Butlers plc Company financial statements

Company balance sheet

25 September 2021

	Notes	2021 £m	2020 £m
Non-current assets			
Investments in subsidiaries	5	**1,616**	1,521
Amounts owed by subsidiary undertakings	6	**380**	379
Deferred tax asset	9	**36**	40
		2,032	1,940
Current assets			
Trade and other receivables	6	**170**	81
Current tax asset		**–**	1
Cash and cash equivalents		**115**	63
		285	145
Current liabilities			
Pension liabilities	4	**(51)**	(51)
Borrowings	8	**(25)**	(15)
Trade and other payables	7	**(284)**	(283)
		(360)	(349)
Non-current liabilities			
Pension liabilities	4	**(92)**	(142)
Net assets		**1,865**	1,594
Equity			
Called up share capital	10	**51**	37
Share premium account	10	**356**	28
Capital redemption reserve		**3**	3
Own shares held	10	**(3)**	(3)
Retained earnings		**1,458**	1,529
Total equity		**1,865**	1,594

The Company reported a loss for the 52 weeks ended 25 September 2021 of £106m (52 weeks ended 26 September 2020 loss of £136m).

The Company financial statements were approved by the Board and authorised for issue on 24 November 2021.

They were signed on its behalf by:

Tim Jones
Chief Financial Officer

The accounting policies and the notes on pages 164 to 167 form an integral part of these Company financial statements.

Registered Number: 04551498

Company statement of changes in equity

For the 52 weeks ended 25 September 2021

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares held £m	Retained earnings £m	Total equity £m
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
Loss after taxation	–	–	–	–	(106)	(106)
Remeasurement of pension liability	–	–	–	–	9	9
Deferred tax on remeasurement of pension liability and rate change of pension liability					24	24
Total comprehensive expense	–	–	–	–	(73)	(73)
Share capital issued	14	328	–	–	–	342
Purchase of own shares	–	–	–	(1)	–	(1)
Release of own shares	–	–	–	1	(1)	–
Credit in respect of employee share schemes	–	–	–	–	3	3
At 25 September 2021	**51**	**356**	**3**	**(3)**	**1,458**	**1,865**

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

Notes to the Mitchells & Butlers plc Company 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 IFRS 2 share-based payments, requirements of IFRS 7 Financial Instruments: Disclosures, presentation of a cash flow statement, IAS 36 Impairment of Assets, standards not yet effective and IAS 24 Related Party Disclosures. 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 as adopted within the UK that are mandatorily effective for an accounting period that begins on or after 1 January 2020, 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; and the assessment of expected credit loss on amounts owed by subsidiary undertakings as described in note 6. There are no key sources of estimation uncertainty in the current period.

Foreign currencies

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

2. Profit and loss account

Profit and loss account

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

The Company recorded a loss after tax of £106m (2020 £136m), less dividends of £nil (2020 £nil).

Audit remuneration

Auditor's remuneration for audit services to the Company was £30,000 (2020 £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

	2021 52 weeks	2020 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 79 to 96. The charge recognised for share-based payments in the period is £nil (2020 £nil).

4. Pensions

Accounting policy

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

Pension liability

At 25 September 2021 the Company's pension liability was £143m (2020 £193m). Of this amount, £51m (2020 £51m) is a current liability and £92m (2020 £142m) 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 151 to 154.

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 28 September 2019	3,353
Additions[a]	47
At 26 September 2020	3,400
Additions[a]	95
At 25 September 2021	**3,495**
Provision	
At 28 September 2019	1,879
Impairment	–
At 26 September 2020	1,879
Impairment	–
At 25 September 2021	**1,879**
Net book value	
At 25 September 2021	**1,616**
At 26 September 2020	1,521
At 28 September 2019	1,474

a. During the current period the Company subscribed for 95 million ordinary shares (2020 47 million) 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 9.6% (2020 9.9%) and a long-term growth rate of 1.0% (2020 0.0%). The long-term growth rate has been increased to 1.0% in the current period based on up to date economic data points and for consistency with the overall Group profit forecast. As a result, the Company's investment in Mitchells and Butlers Holdings (No. 2) Limited has been impaired by £nil (2020 £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 2022 that was in place at the balance sheet date.

Notes to the Mitchells & Butlers plc Company financial statements continued

6. Trade and other receivables

	2021 £m	2020 £m
Non-current		
Amounts owed by subsidiary undertakings	**380**	379

	2021 £m	2020 £m
Current		
Amounts owed by subsidiary undertakings	**169**	81
	1	–
	170	81

Amounts owed by subsidiary undertakings are repayable on demand. However, £380m (2020 £379m) 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.

A gross amount of £228m (2020 £131m) is owed by Mitchells & Butlers Leisure Retail Limited, the management service company within the Mitchells & Butlers group. The securitisation covenants, as described in note 4.1 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 fully repay the amount owed to the Company in future periods. A lifetime ECL of £228m (2020 £131m) 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

	2021 £m	2020 £m
Amounts owed to subsidiary undertakings[a]	**282**	282
Accrued charges	**1**	1
Other payables	**1**	–
	284	283

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 4.1.

Borrowings can be analysed as follows:

	2021 £m	2020 £m
Current		
Bank overdraft	**25**	15
Total borrowings	**25**	15

Unsecured revolving credit facility

The Company holds an uncommitted gross overdraft facility of £50m (2020 £50m) as part of the Group's notional pooling arrangements with a net facility limit of £5m (2020 £5m) across the participating Group companies. The amount drawn at 25 September 2021 is £25m (2020 £15m).

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 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
Charged to income statement – pensions	(29)
Credited to income statement – tax losses	1
Credited to other comprehensive income – pensions	24
At 25 September 2021	**36**

Analysed as tax timing differences related to:

	2021 £m	2020 £m
Pensions	**31**	36
Tax losses[a]	**4**	3
Share-based payments	**1**	1
	36	40

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 and share premium
Details of the amount and nominal value of called up and fully paid share capital and share premium are contained in note 4.7 to the consolidated financial statements, including details of the Open Offer share issue on 12 March 2021.

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

Own shares held
Details of the amount of own shares held are contained in note 4.7 to the consolidated financial statements.