Registration number: 00024542

# Mitchells & Butlers Retail Limited

Annual Report and Financial Statements

for the 52 weeks ended 26 September 2020

# Mitchells & Butlers Retail Limited

## Strategic Report for the 52 weeks ended 26 September 2020

Mitchells & Butlers Retail Limited ("the Company") is a private company limited by shares and is a subsidiary company of Mitchells & Butlers plc. Mitchells & Butlers plc, along with its subsidiaries, form the Mitchells and Butlers group of companies ("the Group"). The address of the Company's registered office is shown in note 24.

The Directors present their Strategic Report for the 52 weeks ended 26 September 2020. The comparative period is for the 52 weeks ended 28 September 2019.

**Business Model**

***Fair review of the business***

The Company is a UK operator of pubs and restaurants with an estate of 1,276 managed outlets and 61 leased outlets at 26 September 2020 (2019 1,279 managed outlets and 57 leased outlets).

Revenue for the period was £1,092m (2019 £1,674m) with loss for the period before taxation of £72m (2019 profit of £161m). Taxation credited against the loss for the period was £8m (2019 £23m charged against the profit) leaving a loss after tax of £64m (2019 profit of £138m). The Company was in a net asset position of £3,014m (2019 £3,182m) at the period end.

This financial period has been dominated by the impact that Covid-19 has had on the Company and the wider industry. Before Covid-19 we had enjoyed a strong start to FY 2020 and we continued to see the beneficial impact of our Ignite programme of work coming through in results.

As the Covid-19 pandemic began to spread across the country, the business remained quite resilient, but when full lockdown was announced on 20 March 2020 we closed the business immediately, with our priority being to protect both our guests and team members. A number of measures were taken at the outset of the crisis to protect the business including:

- putting all of our employees on furlough;
- quickly reducing operating costs to the minimum required to keep the estate safe and secure;
- halting all discretionary capital spend as part of the broader cash management plan and;
- selling stock with a short shelf life at cost plus minimal margin, and where that proved unworkable, working alongside charitable institutions to avoid as much waste as possible.

During the closure period we developed new Covid secure procedures which enabled us to reopen with safe environments in early July, while still providing a hospitable feel and great experience for our guests.

Securing a strong and stable financial base for the business became an immediate priority and we were pleased to agree additional liquidity and amended terms to our financing arrangements, the combination of which has provided us with stability and flexibility.

We have gratefully received the Government support which has been made available to date, including the business rates holiday, Eat Out To Help Out which ran for specific days during August, reduced VAT on certain sales and the Job Retention Scheme.

Throughout the pandemic we have worked hard to keep our team members connected and informed. A new support portal was launched which includes regularly updated FAQs and central communication. Through our established online learning platform, we were able to facilitate continued learning and development during closure and we also used this platform to quickly communicate new operational procedures to ensure that our teams were always up to date with, and trained on, the latest safety requirements. The welfare and mental health of our team has been a primary concern and we have been encouraged in the way the business has pulled together at this difficult time.

Digital technology has become increasingly important as this allows our service cycle to be adapted to better adhere to Government restrictions. We had already developed a facility for guests to order at the table on their phone and this has been quickly rolled out across more sites in response to the pandemic. These sorts of technological interventions also help to improve the economics of a service cycle which has become more reliant on table service.

***Market supply***

The trading environment has presented unprecedented challenges for the industry as whole, as it continues to navigate through an ever changing backdrop of trading restrictions and social distancing measures. Despite the available Government support, not all businesses were able to weather the initial prolonged period of closure and subsequent reduced demand. A number of companies have entered into CVAs and closure programmes and by the end of October the Alix partners CGA Market Recovery Monitor showed that only 69.9% of total licensed properties had reopened for trading, suggesting that the long-term impact of the pandemic on market supply is likely to be significant.

**Business Model (continued)**

***Market supply (continued)***
The UK political and economic environment remains uncertain. The impact of Brexit remains unclear, aside from macro-economic consequences, the specific areas of material impact for our business are likely to be increases in costs and reduction of availability of goods, and implications of restrictions on the free movement of labour. On exit of the EU, cost of goods might be impacted by changes in terms of trade and therefore tariffs, additional border controls and fluctuations in the value of sterling. From an employment perspective, any restriction on the free movement of labour would be expected to have a material impact on both the cost of labour and access to talent. Currently, across our business, we have a large number of team members who are non-British EU nationals. We remain close to these issues and have contingency plans in place whilst we await further details.

***Our strategic priorities***
Despite the impacts of Covid-19, the fundamental strengths of our business remain. In the short to medium term our focus will be on successfully trading the business in the fast changing environment, ensuring the safety of our team members and guests, and on growing the business back to, and beyond, the levels of trade that we enjoyed before the pandemic. We continue to focus on the three identified priority areas which aim to strengthen the competitive position of the Company; building a more balances business; instilling a more commercial culture and; driving an innovation agenda.

***Ignite***
Our Ignite programme of work, which has delivered significant value to date, remains at the core of our long-term growth plan and we are working up a fresh wave of new initiatives ready to launch when trading becomes more stable. We expect three or four major projects in particular to yield significant opportunities in the future including auto-ordering and master data management, but aside from these, our immediate focus will be to prioritise shorter-term initiatives which have a quick impact on the business, such as further roll out of order-at-table and extending the delivery footprint.

We remain confident of our ability to deliver long-term sustained efficiencies and business improvements through the Ignite programme and will be working to refine and roll out the new initiatives as soon as practical.

***Outlook***
The future will remain both challenging and highly uncertain, with the duration and depth of the trading restrictions imposed on the hospitality sector in response to Covid-19 being detrimental to our financial performance. We will continue to manage the business on a professional and prudent basis, limiting the outflow of resources when we are required to be closed and taking advantage of the ability to reopen our sites and trade as and when that occurs.

**Key Performance Indicators**
The performance of the Company is monitored as part of the wider Group. These performance indicators are discussed in the Annual Report and Accounts 2020 of Mitchells & Butlers plc and include staff turnover, net promoter score, same outlet like-for-like sales growth, incremental return on expansionary capital and adjusted operating profit.

Further explanation of the performance and reasons for the movements can be found in the Annual Report and Accounts 2020 of Mitchells & Butlers plc.

**Principal risks and uncertainties**
The Company's Directors consider the risks for the Company to be largely the same as the risks of the Group that are discussed in the Annual Report and Accounts 2020 of Mitchells & Butlers plc. Decisions on how to monitor and mitigate these risks are made for the Group as a whole. Risks relevant to the Company include, but are not restricted to the following:

- **Market risks**

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

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

**Principal risks and uncertainties (continued)**

- **Market risks (continued)**

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

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

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

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

- **Operational risks**

***People planning and development***
The Group has a strong guest focus, and as such it is important that it is able to attract, retain, develop and motivate the best people with the right capabilities. There is a risk that without the right people our customer service levels would be affected.

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

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

There are a large number of EU workers within the Group. Therefore, the overall risk is increasing as the UK completes its transition period following the UK's departure from the EU. Any restriction on the free movement of labour would have a material impact on both the cost of labour and access to talent.

The apprenticeship programme will assist in mitigating against the increasing risk in relation to EU workers and a new talent management system has been sourced to further assist with talent planning and retention of employees.

***Business continuity and crisis management***
The Group relies on its food and drink supply chain and the key IT systems underlying the business to serve its guests efficiently and effectively. Supply chain interruption, IT system failure or crises such as terrorist activity or the threat of disease pandemic might restrict sales or reduce operational effectiveness.

The Group has in place crisis and continuity plans that are tested and refreshed regularly.

***Information security and disaster recovery***
There is a risk that inadequate disaster recovery plans and information security processes are in place to mitigate against a system outage, or failure to ensure appropriate back-up facilities (covering key business systems and the recovery of critical data) and loss of sensitive data. In addition, there are also increasing risks of cyber-attacks and non-compliance with GDPR.

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

**Principal risks and uncertainties (continued)**

- **Operational risks (continued)**

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

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

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

***Brexit***
With c30% of food spend sourced from EU countries, as the UK leaves the EU, the risk of higher food costs will increase. In addition, there is an increasing risk to the sourcing of certain products given the expected delays at ports following the end of the transition period following the UK leaving the EU. At the end of the transition period by the UK from the EU, the cost of goods may be impacted by changes in terms of trade and tariffs, additional border controls and fluctuations in the value of sterling.

Brexit risks have been considered in detail during FY 2020 and mitigating plans continue to be reviewed and developed. The Group has aimed to buy ahead to mitigate the risk of a lack of availability of products upon the end of the transition period from the EU and strong commercial relationships with key suppliers have assisted with securing an adequate supply of goods in the event of a disruption. In addition, contingency markets have been identified for the alternative supply of food and drink, should it be required.

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

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

We have also successfully implemented a new Time and Attendance system to improve the management controls and reporting of staff hours which will assist in rostering and monitoring of the level of staff costs in each outlet.

- **Finance risks**

***Borrowing covenants***

There are risks that borrowing covenants are breached because of circumstances such as:
i. A change in the economic climate leading to reduced cash inflows or profits; or
ii. A material change in the valuation of the property portfolio.

The overall risk has increased in the year due to the impact of Covid-19 and the 3 month mandatory closure of pubs by the UK Government. This has increased trading and cost pressures which reduce headroom on the covenants.

In June 2020, we agreed waivers and amendments to the existing debt covenants, as described more fully in the Securitisation section of the Directors' report. As such, the Group has not breached any covenants in FY20.

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

**Principal risks and uncertainties (continued)**

- **Regulatory risks**

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

We support the need for social distancing measures to reduce the spread of Covid-19. While social distancing measures are in place the capacity of our businesses will be reduced, impacting the offer to our guests and the financial model of our operations. Given the unknown nature of the virus the duration of distancing measures is uncertain.

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

We have applied a risk assessment to each of our businesses and operate under the new Covid-19 guidelines and have adapted the format and practices of our sites to ensure that the distancing guidelines provided by the Government can be adhered to, protecting both team members and guests. We continuously review the latest Covid-19 guidelines and continue to adapt our businesses in response.

**Confirmation of Directors' duties**
The Directors have acted in a way that they considered, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole and in doing so have given regard, amongst other matters, to the following considerations in the decisions taken during the financial period ended 26 September 2020:

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

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

In carrying out these functions, the Board had regard to those stakeholders which it had identified as being of significant importance. These are the Company's shareholder, those employees of the Company or other parts of the Mitchells & Butlers group who were likely to be affected by the activities of the Company (including their job security and entitlements in terms of pay, pensions and other benefits), those customers of the goods and services provided by the Company, suppliers to the Company, whether they are external to the Mitchells & Butlers group or within that group, governmental authorities such as HMRC and regulatory bodies, real estate property counter-parties (whether as landlords or tenants) and those specific entities or individuals who are likely to be affected by the outcome of the relevant matter falling for consideration on a case by case basis.

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

Major matters considered by the Board during the year related primarily to the effect on the Company's business and its customers, employees and suppliers, of the closure of its trading sites due to the Covid-19 pandemic, and the subsequent re-opening of the overwhelming majority of those sites, rent payments to be made to real estate property landlords, the effect of the financial support received from the UK Government under its various Coronavirus business support schemes and the assessment of the Company's financial position and its ability to continue to trade, incur credit and to pay its employees, suppliers and other creditors.

## Mitchells & Butlers Retail Limited
### Strategic Report for the 52 weeks ended 26 September 2020 (continued)

**Confirmation of Directors' duties (continued)**
The Board also remained cognisant of the fact that there was likely to be an expectation amongst those stakeholders that the Company's decisions would be, where appropriate, consistent with the wider strategic direction of the Mitchells & Butlers group as set out by its ultimate parent company, Mitchells & Butlers plc. However, in reaching its decisions, the Board of the Company regarded this as only one of the relevant factors.

The Board had the benefit of a specific briefing from its external legal advisers on the duties and responsibilities of the directors in the challenges and unusual operating circumstances which were caused by the Covid-19 pandemic and continued to keep that advice in mind throughout the remainder of FY 2020.

The Board also considered the wider implications of the Covid-19 pandemic on the Mitchells & Butlers group as a whole in relation, in particular, to financing arrangements and the need to support the Group's securitisation structure/comply with the Company's obligations in relation to its securitisation arrangements.

Having identified the relevant stakeholders and their interests in relation to specific matters or particular circumstances, the Board then assessed the relevant weighting of those interests in considering and eventually reaching its conclusions. This was of particular importance in relation to its decisions relating to the closure of trading sites, furloughing of staff, accessing Government support, amendments to trading arrangements with external suppliers and internal counter-parties, the financing and capitalisation of Group companies and changes to existing debt arrangements.

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

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

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

The Board also confirmed that, in discharging its responsibilities for management, supervision and control of the Company's business and its affairs, it would seek to align to the Mitchells & Butlers group PRIDE Values of Passion, Respect, Innovation, Drive and Engagement as set out at page 21 of the Mitchells & Butlers plc Annual Report and Accounts 2020.

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

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

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

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

Approved by the Board on 4 December 2020 and signed on its behalf by:

Gregory J. McMahon

G J McMahon
Director

# Mitchells & Butlers Retail Limited

## Directors' Report for the 52 weeks ended 26 September 2020

The Directors present their report on the affairs of the Company, together with the financial statements and independent auditor's report, for the 52 weeks ended 26 September 2020. The comparative period is for the 52 weeks ended 28 September 2019.

Details of future developments can be found in the Strategic Report on page 6.

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

Details of the Company's engagement process with various stakeholders and different tiers of suppliers, together with the effect of that regard on the principal decisions taken by the Company during the financial year are in line with those of the wider Mitchells and Butlers Group. Details of these processes are set out in the Strategic report on pages 5 to 6.

**Dividends**
Dividends paid during the period are disclosed in note 21. The Directors are proposing a final dividend of £nil (2019 £nil).

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

**Securitisation**
Since November 2003, the Company has operated within the Mitchells & Butlers securitisation structure. Under this securitisation structure, the Company has borrowed £1,618m (2019 £1,698m) after amortisation, from Mitchells & Butlers Finance plc under an Issuer/Borrower Facility Agreement dated 13 November 2003, amended and restated on 15 September 2006. The borrowings (Term Advances) are secured on the Company's assets and future income streams therefrom. Mitchells & Butlers Finance plc is a fellow subsidiary within the Group and the issuer of secured loan notes to third party investors for the same amount.

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

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

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

In order to secure such amendments and waivers, the Group gave certain undertakings in relation to its own financing arrangements, namely, to secure the £250m liquidity facilities that are held by other group companies outside of the securitisation structure, and an undertaking to provide funding into the securitisation of up to £100m in line with drawings on the Liquidity Facility.

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

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

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

**Revaluation of property, plant and equipment**
The effects of the Covid-19 pandemic has disrupted activities across all real estate property markets, increasing uncertainties as to valuations which the Company's valuers, CBRE, need to take into consideration. As a consequence, CBRE has included in its valuation report of the Company's real estate properties, wording to reflect that there is a "material valuation uncertainty." This phrase is included on a precautionary basis and does not mean that reliance cannot be placed on their valuation. It has been included to ensure transparency and to provide further insight as to the market context under which the valuation opinion was prepared. In recognition of the potential for market conditions to move rapidly in response to changes in Covid-19, CBRE have highlighted the importance of the valuation date (26 September 2020). See note 9 for details of the judgements and estimates that are involved in the property valuation.

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

S K Martindale
L J Miles
A W Vaughan
G McMahon

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

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

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

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

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

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

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

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

**Employee engagement (continued)**
Employee engagement was also particularly important in the current period, as a result of the Covid-19 pandemic. Following the instruction of the UK Government on 20 March that the Mitchells and Butlers Group's trading sites should close with immediate effect, they were closed later that day. In order to ensure that it was able to assess any concerns which the Company's employees had in respect of being on furlough and away from their day to day roles., the Company carried out a Wellbeing survey in June. The principal outputs of that survey were used in developing the Company's return to work plans and to enable any common concerns to be addressed.

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

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

**Reappointment of auditor**
In accordance with section 485 of the Companies Act 2006, a resolution for the re-appointment of Deloitte LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board on 4 December 2020 and signed on its behalf by:

Gregory J McMahon

G J McMahon
Director

# Mitchells & Butlers Retail Limited

## Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

### Report on the audit of the financial statements

**Opinion**

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

- give a true and fair view of the state of the Company's affairs as at 26 September 2020 and of its loss for the 52 weeks then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income Statement;
- the Statement of Comprehensive Income;
- the Balance sheet;
- the Statement of Changes in Equity; and
- the related notes 1 to 25.

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

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Material uncertainty related to going concern**

We draw attention to note 1 in the financial statements, which indicates that a material uncertainty exists on the Company's future trading, which under the reasonably plausible scenario described above would result in a breach in the Company's covenants resulting in the Company being unable to realise its assets and discharge its liabilities. As stated in note 1, these events or conditions, along with the other matters as set forth in note 1 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

**Emphasis of matter - material valuation uncertainty related to property, plant and equipment**

We draw attention to note 9 in the financial statements, which describes the effects of the uncertainties created by the coronavirus (COVID-19) pandemic on the valuation of the Company's property portfolio. The pandemic has caused extensive disruptions to businesses and economic activities and the uncertainties created have increased the estimation uncertainty over the fair value of the property portfolio at the balance sheet date. Our opinion is not modified in respect of this matter.

**Other information**

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

**Responsibilities of Directors**

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

**Responsibilities of Directors (continued)**
In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

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

**Report on other legal and regulatory requirements**

**Opinions on other matters prescribed by the Companies Act 2006**
In our opinion, based on the work undertaken in the course of the audit:

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

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

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

**Use of our report**
This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

John Charlton FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
4 December 2020

# Mitchells & Butlers Retail Limited
# Income statement for the 52 weeks ended 26 September 2020

| | Note | 52 weeks ended 26 September 2020 £m | 52 weeks ended 28 September 2019 £m |
|---|---|---|---|
| Revenue | 2 | **1,092** | 1,674 |
| Other income | 2 | **119** | - |
| Operating costs | 3 | **(1,104)** | (1,397) |
| Separately disclosed items | 4 | **(66)** | (4) |
| **OPERATING PROFIT** | | **41** | 273 |
| Finance income | 6 | **-** | 1 |
| Finance costs | 7 | **(113)** | (113) |
| **(LOSS)/PROFIT BEFORE TAXATION** | | **(72)** | 161 |
| Tax credit/(expense) | 8 | **8** | (23) |
| **(LOSS)/PROFIT FOR THE PERIOD** | | **(64)** | 138 |

The above results are derived from continuing operations.

The notes on pages 17 to 54 form an integral part of these financial statements.

# Mitchells & Butlers Retail Limited
# Statement of Comprehensive Income
# for the 52 weeks ended 26 September 2020

| | Note | 52 weeks ended 26 September 2020 £m | 52 weeks ended 28 September 2019 £m |
|---|---|---|---|
| **(LOSS)/PROFIT FOR THE PERIOD** | | **(64)** | 138 |
| **Items that will not be reclassified subsequently to profit and loss:** | | | |
| Unrealised (loss)/gain on revaluation of the property portfolio | 9 | **(134)** | 71 |
| Tax relating to items not reclassified | 8 | **(5)** | (12) |
| | | **(139)** | 59 |
| **Items that may be reclassified subsequently to profit and loss:** | | | |
| Cash flow hedges: | | | |
| Losses arising during the period | 16 | **(36)** | (94) |
| Reclassification adjustments for items included in profit or loss | 16 | **38** | 37 |
| Tax relating to items that may be reclassified | 8 | **6** | 9 |
| | | **8** | (48) |
| **OTHER COMPREHENSIVE (EXPENSE)/INCOME AFTER TAX** | | **(131)** | 11 |
| **TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE PERIOD** | | **(195)** | 149 |

The notes on pages 17 to 54 form an integral part of these financial statements.

# Mitchells & Butlers Retail Limited

(Registration number: 00024542)

# Balance sheet as at 26 September 2020

| | Note | 26 September 2020 £m | 28 September 2019 (restated*) £m |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 9 | 3,685 | 3,881 |
| Right-of-use assets[a] | 17 | 127 | - |
| Investments in subsidiaries | 11 | 21 | 21 |
| Trade and other receivables[a] | 13 | 1,639 | 1,644 |
| Finance lease receivables[a] | 17 | 4 | - |
| Deferred tax asset[a] | 18 | 25 | 19 |
| Lease premiums | | - | 1 |
| **TOTAL NON-CURRENT ASSETS** | | 5,501 | 5,566 |
| **CURRENT ASSETS** | | | |
| Inventories | 12 | 17 | 20 |
| Trade and other receivables[a] | 13 | 19 | 27 |
| Finance lease receivables[a] | 17 | 1 | - |
| Current tax receivable | | 1 | - |
| Cash and cash equivalents | | 63 | 61 |
| **TOTAL CURRENT ASSETS** | | 101 | 108 |
| **TOTAL ASSETS** | | 5,602 | 5,674 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables[a] | 14 | (250) | (224) |
| Corporation tax liability | | - | (11) |
| Borrowings | 15 | (119) | (95) |
| Lease liabilities[a] | 17 | (24) | - |
| Derivative financial instruments | 16 | (40) | (36) |
| **TOTAL CURRENT LIABILITIES** | | (433) | (366) |
| **NET CURRENT LIABILITIES** | | (332) | (258) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 5,169 | 5,308 |
| **NON-CURRENT LIABILITIES** | | | |
| Borrowings | 15 | (1,498) | (1,602) |
| Lease liabilities[a] | 17 | (146) | - |
| Derivative financial instruments | 16 | (259) | (265) |
| Deferred tax liabilities | 18 | (250) | (252) |
| Provisions[a] | 19 | (2) | (7) |
| **TOTAL NON-CURRENT LIABILITIES** | | (2,155) | (2,126) |
| **TOTAL LIABILITIES** | | (2,588) | (2,492) |
| **NET ASSETS** | | 3,014 | 3,182 |
| Share capital | 20 | 51 | 4 |
| Hedging reserve | 20 | (242) | (250) |
| Revaluation reserve | 20 | 979 | 1,115 |
| Retained earnings[a] | 20 | 2,226 | 2,313 |
| **TOTAL EQUITY** | | 3,014 | 3,182 |

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

a. During the period, the Company has adopted IFRS 16 which requires lease liabilities and corresponding right-of-use assets to be recognised on the balance sheet. The Company has adopted IFRS 16 using the modified retrospective approach and as a result, prior period comparatives have not been restated. See notes 1 and 22 for details of the transitional impact.

Approved by the Board and authorised for issue on 4 December 2020. They were signed on its behalf by:

Gregory J McMahon

G J McMahon
Director

The notes on pages 17 to 54 form an integral part of these financial statements.

# Mitchells & Butlers Retail Limited
## Statement of Changes in Equity
## for the 52 weeks ended 26 September 2020

| | Share capital £m | Revaluation reserve £m | Hedging reserve £m | Retained earnings £m | Total £m |
|---|---|---|---|---|---|
| **At 29 September 2018** | **4** | **1,057** | **(202)** | **2,199** | **3,058** |
| Profit for the period | - | - | - | 138 | 138 |
| Other comprehensive income/(expense) | - | 59 | (48) | - | 11 |
| Total comprehensive income/(expense) | - | 59 | (48) | 138 | 149 |
| Transfer on disposal | - | (1) | - | 1 | - |
| Dividends | - | - | - | (25) | (25) |
| **At 28 September 2019** | **4** | **1,115** | **(250)** | **2,313** | **3,182** |
| IFRS 16 transition[a] | - | - | - | (9) | (9) |
| **At 29 September 2019** | **4** | **1,115** | **(250)** | **2,304** | **3,173** |
| Loss for the period | - | - | - | (64) | (64) |
| Other comprehensive income/(expense) | - | (136) | 8 | (3) | (131) |
| Total comprehensive income/(expense) | - | (136) | 8 | (67) | (195) |
| Share capital issued | 47 | - | - | - | 47 |
| Tax on share-based payments | - | - | - | (1) | (1) |
| Dividends | - | - | - | (10) | (10) |
| **At 26 September 2020** | **51** | **979** | **(242)** | **2,226** | **3,014** |

a. During the period, the Company has adopted IFRS 16 which requires lease liabilities and corresponding right-of-use assets to be recognised on the balance sheet. The Company has adopted IFRS 16 using the modified retrospective approach and as a result, prior period comparatives have not been restated. See notes 1 and 22 for details of the transitional impact.

The notes on pages 17 to 54 form an integral part of these financial statements.

### 1. Accounting policies

**Summary of significant accounting policies**

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

**Basis of preparation**

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

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to IFRS 2 share-based payments, requirements of IFRS 7 Financial Instruments: Disclosures, disclosure requirements of IFRS 13 Fair Value Measurement, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, IAS 36 Impairment of Assets and IAS 24 Related Party Disclosures. Where relevant, equivalent disclosures have been given in the Annual Report and Accounts 2020 of Mitchells & Butlers plc.

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

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

**Accounting reference date**

The Company's accounting reference date is 30 September. The Company draws up its financial statements to the Saturday directly before or following the accounting reference date, as permitted by section 390 (3) of the Companies Act 2006. The period ended 26 September 2020 and the comparative period ended 28 September 2019 both include 52 trading weeks.

**Consolidation**

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

**Going concern**

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

The Company's financing is based on securitised debt which includes various covenants. Covenant amendments and waivers have been obtained as a result of Covid-19, as described in the securitisation section of the Directors' report on page 7.

*Significant judgements and base case*

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

**1. Accounting policies (continued)**

**Going concern (continued)**

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

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

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

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

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

There is a reasonably plausible scenario where the Company could experience the sales shortfalls set out in the reverse stress test which would result in a breach to its covenants. Any breach in covenants would result in a need for a waiver of the banking covenants, or for the Company to renegotiate its borrowing facilities, neither of which are fully within the Company's control. A breach of covenants would also result in the reclassification of £1,498m non-current borrowings to current borrowings. The Directors have, however, assessed that: given the strength of the underlying business including its property estate and brand portfolio; the Company's existing relationships with its main creditors; its historical success in obtaining covenant waivers and in raising finance; and ongoing dialogue with its main creditors, they believe that a waiver of the covenants or renegotiation of the facilities would be successful.

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

*Going concern statement*
Notwithstanding the material uncertainty highlighted above, after due consideration the Directors have a reasonable expectation that the Company has sufficient resources to continue in operational existence for period of at least twelve months from the date of approval of these financial statements. Accordingly, the financial statements continue to be prepared on the going concern basis.

1. **Accounting policies (continued)**

**Restatement**
During the current period, amounts owed by subsidiary undertakings have been reclassified from current assets to non-current assets. The amounts are described as repayable on demand, however, the Company does not expect the amounts to be settled within the next twelve months, and as such IAS 1 requires the assets to be disclosed as non-current. The amounts are shown within note 13.

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

Estimates and judgements are periodically evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. In the current period, there has been significant judgement around the going concern assessment, including estimation uncertainty in the forecasts used for this assessment. Full details are provided in the going concern review on pages 17 to 18.

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

Judgements and estimates for the period remain largely unchanged from prior period, other than the consideration of the impact of Covid-19 where relevant. In addition, there are new judgements and estimates within note 17 Leases as a result of the adoption of IFRS 16 and the impact of Covid-19. Judgements around provisions are also no longer relevant as onerous lease provisioning for fixed rental charges is no longer a requirement post implementation of IFRS 16.

Critical judgements are described in:
- Note 4 – Separately disclosed items
- Note 9 – Property, plant and equipment
- Note 13 – Trade and other receivables
- Note 17 – Leases
- Note 18 – Deferred tax

Key sources of estimation uncertainty are described in:
- Note 9 – Property, plant and equipment
- Note 17 – Leases
- Note 18 – Deferred tax

**Adoption of new and revised Standards**
The Company has initially adopted IFRS 16 Leases from 29 September 2019. A number of other new standards were effective from 29 September 2019 but they do not have a material impact on the Company's accounts.

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

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

The date of initial application of IFRS 16 for the Company is 29 September 2019. The impact of the adoption of IFRS 16 on the balance sheet, income statement and statement of changes in equity is shown in note 22.

*The Company as lessee*
The Company has applied the practical expedient available on transition to IFRS 16, not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered into or modified before 29 September 2019. The Company now assesses whether a contract is or contains a lease based on the new definition of a lease for all contracts entered into or modified on or after 29 September 2019. Under IFRS 16, a contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

## 1. Accounting policies (continued)

### Adoption of new and revised Standards (continued)

***IFRS 16 Leases (continued)***

*The Company as lessee (continued)*
The Company has also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of twelve months or less and do not contain a purchase option, and lease contracts for which the underlying asset is of low value.

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

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

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

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

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

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

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

1. **Accounting policies (continued)**

**Adoption of new and revised Standards (continued)**

***IFRS 16 Leases (continued)***

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

However, IFRS 16 has changed and expanded the disclosures required, in particular with regard to how a lessor manages the risks arising from its residual interest in leased assets.

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

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

The impact of the adoption of IFRS 16 on the balance sheet, income statement and statement of changes in equity is shown in note 22.

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

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

As further described in note 15 the Company has floating rate debt linked to GBP LIBOR which it cash flow hedges using interest rate swaps as described in note 16. The amendments allow the Company to continue to apply hedge accounting through the transition to the new benchmark rate even though there is uncertainty about the timing and amount of the hedged cash flows as a result of the interest rate benchmark reforms.

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

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

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

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

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

# Mitchells & Butlers Retail Limited

## Notes to the Financial Statements for the 52 weeks ended 26 September 2020 (continued)

1. **Accounting policies (continued)**

**Revenue recognition (continued)**

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

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises as expenses the related 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, grant income received is shown within other income. The scheme commenced on 20 March 2020 and will continue until 31 March 2021.

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

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

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

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

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

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

1. **Accounting policies (continued)**

**Property, plant and equipment**

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

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

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

***Depreciation***

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

Freehold land is not depreciated.

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

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

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

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

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

***Disposals***

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

***Revaluation***

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

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

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

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

## 1. Accounting policies (continued)

### Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

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

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

1. **Accounting policies (continued)**

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

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

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

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

Onerous property provisions represent the expected unavoidable losses on onerous and vacant property leases and comprise the lower of the net lease commitments (fixed service charge) or the operating loss after service charge costs. Before the implementation of IFRS 16 in the current period, this provision included rental costs within the net lease commitment. 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.

**Leases**

***Company as lessee***
The Company assesses whether a contract is or contains a lease, at inception of the contract, to all lease contracts entered into or modified on or after 29 September 2019.

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

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

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

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

**1. Accounting policies (continued)**

**Leases (continued)**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**1. Accounting policies (continued)**

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

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

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

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

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

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):
• the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
• the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

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

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

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

**1. Accounting policies (continued)**

**Financial instruments (continued)**

***Financial assets (continued)***

*Credit-impaired financial assets*
A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:
(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event;
(c) the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(e) the disappearance of an active market for that financial asset because of financial difficulties.

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

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

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

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

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

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

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

***Financial Liabilities***
The Company has financial liabilities relating to borrowings, for which the accounting policy is provided on page 25. Other financial liabilities are initially measured at fair value, net of transaction costs.

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

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

**1. Accounting policies (continued)**

**Financial instruments (continued)**

***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 Company 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

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

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

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

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

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

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

## 2. Revenue and other income

***Revenue***

Mitchells & Butlers Retail Limited is a wholly owned subsidiary of Mitchells & Butlers Retail Holdings Limited with its operations falling under a single class of business and all residing within the UK. As such the Company reports only a single business segment. Disclosures under IFRS 8 Segmental Reporting are only provided at a Group level and are available in the Mitchells & Butlers plc Annual Report and Accounts 2020.

Revenue is analysed as follows:

| | 52 weeks ended 26 September 2020 £m | 52 weeks ended 28 September 2019 £m |
|---|---|---|
| Food | **557** | 818 |
| Drink | **496** | 797 |
| Services | **39** | 59 |
| Total revenue | **1,092** | 1,674 |

Revenue from services includes rent receivable of £6m (2019 £8m) from leased operations. The rental income received is lower in the current period, as a result of the adoption of IFRS 16. Under IFRS 16, a number of the Company's subleases have been reclassified from operating leases to finance leases (see note 17).

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

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

***Other income***

Other income is analysed as follows:

| | 52 weeks ended 26 September 2020 £m | 52 weeks ended 28 September 2019 £m |
|---|---|---|
| Government grant | **119** | - |
| Total other income | **119** | - |

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

## 3. Operating costs

| Operating costs are analysed as follows: | Note | 52 weeks ended 26 September 2020 £m | 52 weeks ended 28 September 2019 £m |
|---|---|---|---|
| Raw materials and consumables recognised as an expense | | **271** | 425 |
| Changes in inventories of finished goods | 12 | **3** | - |
| Employee costs | 5 | **455** | 470 |
| Hire of plant & machinery | | **11** | 17 |
| Operating lease expense - property[a] | | **3** | 24 |
| Intercompany costs[b] | | **65** | 81 |
| Other costs[c] | | **196** | 289 |
| Depreciation of property, plant and equipment | 9 | **85** | 91 |
| Depreciation of right-of-use assets | 17 | **15** | - |
| Total operating costs | | **1,104** | 1,397 |

a. Following the implementation of IFRS 16 in the current period, fixed rental costs associated with property leases are no longer recognised as operating costs but are instead charged as a depreciation and interest expense (see notes 1 and 22). The remaining costs included for the 52 weeks ended 26 September 2020 are variable lease payments, rental costs for short-term leases and service charges.

b. Intercompany costs represent the management service charge payable to Mitchells & Butlers Leisure Retail Limited. The costs have reduced in the current period as due to the 3 month closure of pubs following the breakout of the Covid-19 pandemic, Mitchells & Butlers Leisure Retail Limited reduced the management service charge to the Company.

c. Other costs include the cost of business rates. During the current period, the UK Government announced 100% rate relief for all pubs and restaurants for the business rates year 2020/2021. The impact in the current period is an estimated saving of £37m (2019 £nil).

Fees paid to Deloitte LLP for the audit of the Company's accounts were £0.17m (2019 £0.17m). The fee is borne on behalf of the Company by another Group company. Fees paid to Deloitte LLP and their associates for non-audit services are not disclosed for the Company since the Annual Report and Accounts 2020 of Mitchells & Butlers plc, the ultimate parent of Mitchells & Butlers Retail Limited discloses such fees on a consolidated basis.

## 4. Separately disclosed items

**Critical accounting judgements**

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

Separately disclosed items are identified as follows:

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

**4. Separately disclosed items (continued)**

The items identified are as follows:

| | Note | 52 weeks ended 26 September 2020 £m | 52 weeks ended 28 September 2019 £m |
|---|---|---|---|
| Costs directly associated with Covid-19 and the enforced closure of pubs | a | 8 | - |
| Gaming machine settlement | b | (12) | - |
| Total separately disclosed items recognised within operating costs | | (4) | - |
| Movement in the valuation of the property portfolio: | | | |
| Impairment arising from the revaluation | c | 43 | 2 |
| Impairment of freehold and long leasehold tenant's fixtures and fittings | d | 7 | - |
| Impairment of short leasehold and unlicensed properties | e | 2 | 2 |
| Impairment of right-of-use assets | f | 13 | - |
| Net movement in the valuation of the property portfolio | | 65 | 4 |
| Other separately disclosed items | | | |
| Impairment of intercompany receivable | g | 5 | - |
| Total other separately disclosed items | | 5 | |
| Total separately disclosed items | | 66 | 4 |

a. Costs directly associated with the Covid-19 pandemic primarily relate to the disposal of stock items at site that are beyond useable dates as a result of the Government enforced closure of pubs on 20 March 2020. This excessive wastage is not considered to be part of normal trading activity.
b. The income of £12m relates to a long-standing claim with HMRC, relating to VAT on gaming machines. HMRC first paid the Company £12m in May 2010 but following an appeal by HMRC, the Company repaid this amount in 2014. During the 52 weeks ended 26 September 2020, HMRC agreed to settle this amount with the Company. The amount recognised is the settlement value including estimated interest.
c. Impairment arising from the Company's revaluation of its freehold and long leasehold pub estate where the carrying values of the properties exceed their recoverable amount, net of a revaluation surplus that reverses past impairments. See note 9 for further details.
d. Impairment of freehold and long leasehold tenant's fixtures and fittings where their carrying values exceed their recoverable amounts. See note 9 for further details.
e. Impairment of short leasehold and unlicensed properties where their carrying values exceed their recoverable amount, net of any impairment reversal where carrying values have been increased to the recoverable amounts. See note 9 for further details.
f. Impairment of right-of-use assets where their carrying values exceed their recoverable amounts. See note 17 for further details.
g. In reviewing the lifetime expected credit loss of intercompany receivables, the Directors have concluded that an impairment of £5m should be recognised against the intercompany receivable from Mitchells and Butlers plc. See note 13.

5. **Employee costs**

| | 52 weeks ended 26 September 2020 £m | 52 weeks ended 28 September 2019 £m |
|---|---|---|
| Wages and salaries | 422 | 436 |
| Social security costs | 25 | 27 |
| Pension costs, defined contribution scheme | 7 | 6 |
| Share-based payments[a] | 1 | 1 |
| Employee costs before Government grants[b] | 455 | 470 |

a. Full disclosure of the share schemes in operation during the period, and their valuations, are provided in the Mitchells & Butlers plc Annual Report and Accounts 2020.

b. A government grant for the 52 weeks ended 26 September 2020 was received in relation to the Coronavirus Job Retention Scheme, to contribute towards the cost of employee wages and salaries, social security costs and pensions. This was introduced by the UK Government in response to the Covid-19 pandemic. The amount is reported within other income. See note 2 for further details.

**Average number of employees**

The 4-weekly average number of persons employed by the Company during the period, including part time employees, was 31,824 (2019 32,580). All employees are retail employees.

**Directors' remuneration**

The four Directors (2019 four) who served during the period were all employed by another Group company (Mitchells & Butlers Leisure Retail Limited) and are also Directors of other subsidiary companies of the Mitchells & Butlers plc Group. The Directors received total remuneration of £0.9m (2019 £1.5m) in respect of their services to the Group, but it is not practical to allocate this between each of the subsidiary companies for which they act as a Director. At the period end four (2019 four) of the Directors were members of the Group's defined contribution scheme, with one (2019 one) Directors also holding accrued service within the Group's defined benefit scheme. During the period, three (2019 three) of the Directors were granted share options in the 'PRSP' (Performance Restricted Share Plan) scheme. Details of this scheme are disclosed in the Mitchells & Butlers plc Annual Report Accounts 2020.

The highest paid Director received emoluments of £0.3m (2019 £0.6m), with Company contributions to defined contribution pension schemes of £nil (2019 £nil). This Director was also granted share options in the PRSP scheme in the period.

**Pensions**

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

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

***Defined contribution scheme***

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

In the 52 weeks ended 26 September 2020, the Mitchells & Butlers plc Group paid £13m (2019 £11m) in respect of the defined contribution arrangements. The pension charge in respect of the defined contribution arrangements included in the profit and loss account of the Company for the 52 weeks ended 26 September 2020 was £7m (2019 £6m).

***Defined benefit scheme***

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

5. **Employee costs (continued)**

**Pensions (continued)**

***Defined benefit scheme (continued)***

*Measurement of assets and liabilities*
Mitchells & Butlers plc has accounted for pensions in accordance with IAS 19 Employee Benefits (revised). The valuations used by Mitchells & Butlers plc for IAS 19 (revised) purposes are based on the results of the latest full actuarial valuation carried out at 31 March 2019 and updated by the schemes' qualified actuaries to 26 September 2020. Scheme assets are stated at market value at 26 September 2020 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. Full disclosure of assumptions and the valuation is provided in the Mitchells & Butlers plc Annual Report and Accounts 2020.

*Minimum funding requirements*
The results of the 2019 actuarial valuation showed a funding deficit of £293m, using a more prudent basis to discount the scheme liabilities than is required by IAS 19 (revised). As a result of the 2019 actuarial valuation, Mitchells & Butlers plc has subsequently agreed recovery plans for both the Executive and Main schemes in order to close the funding deficit in respect of its pension liabilities. The recovery plans show an unchanged level of cash contributions with no extension to the agreed payment term (£45m per annum indexed with RPI from 1 April 2016 subject to a minimum increase of 0% and maximum of 5%, until 31 March 2023). Following the outbreak of the Covid-19 pandemic and the enforced temporary closure of the business at the end of March 2020, Mitchells & Butlers plc 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 in 2023.

Under IFRIC 14, an additional liability is recognised such that the overall pension liability at the period end reflects the schedule of contributions in relation to a minimum funding requirement, should this be higher than the actuarial deficit. The Group IAS 19 (revised) deficit calculated on this basis, and recognised in the Mitchells & Butlers plc Annual Report and Accounts 2020, is £193m (2019 £215m).

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

6. **Finance income**

| | 52 weeks ended 26 September 2020 £m | 52 weeks ended 28 September 2019 £m |
|---|---|---|
| Finance income intercompany | - | 1 |
| Total finance income | - | 1 |

7. **Finance costs**

| | 52 weeks ended 26 September 2020 £m | 52 weeks ended 28 September 2019 £m |
|---|---|---|
| Intercompany interest on Term Advances | 105 | 109 |
| Liquidity facility fees reimbursed to Mitchells & Butlers Finance plc | 2 | 4 |
| Interest on lease liabilities | 6 | - |
| Total finance costs | 113 | 113 |

## 8. Taxation

| | 52 weeks ended 26 September 2020 £m | 52 weeks ended 28 September 2019 £m |
|---|---|---|
| **Taxation – income statement** | | |
| **Current taxation** | | |
| UK corporation tax | (5) | (30) |
| Amounts over provided in prior periods | 3 | 4 |
| Group relief received for nil payment | 5 | 2 |
| | 3 | (24) |
| **Deferred taxation** | | |
| Origination and reversal of temporary differences | 11 | 2 |
| Adjustments in respect of prior periods | (1) | (1) |
| Tax charge in respect of change in UK tax rate | (5) | - |
| | 5 | 1 |
| Total tax credited/(charged) in the income statement | 8 | (23) |

The standard rate of corporation tax applied to the reported profit is 19.0% (2019 19.0%). The tax in the income statement for the period is lower credit (2019 lower charge) than the standard rate of corporation tax in the UK.

The differences are reconciled below:

| | 52 weeks ended 26 September 2020 £m | 52 weeks ended 28 September 2019 £m |
|---|---|---|
| (Loss)/profit before tax | (72) | 161 |
| Taxation credit/(charge) at the UK standard rate of corporation tax of 19.0% (2019 19.0%) | 14 | (31) |
| Expenses not deductible | (2) | (1) |
| UK-UK transfer pricing - imputed interest income | (8) | - |
| Adjustments in respect of prior periods | 2 | 3 |
| Income not taxable | 2 | 4 |
| Group relief received | 5 | 2 |
| Effect of change in UK tax rate | (5) | - |
| Total tax credit/(charge) | 8 | (23) |
| Further analysed as tax relating to: | | |
| Loss/(profit) before tax and separately disclosed items | 2 | (24) |
| Separately disclosed items | 6 | 1 |
| | 8 | (23) |

**Factors which may affect future tax charges**

The Finance Act 2016 reduced the main rate of corporation tax from 19% to 17% from 1 April 2020. The effect of these changes has been reflected in the closing deferred tax balances at 28 September 2019.

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

**8. Taxation (continued)**

| | 52 weeks ended 26 September 2020 £m | 52 weeks ended 28 September 2019 £m |
|---|---|---|
| **Taxation – Other comprehensive income** | | |
| Deferred tax: | | |
| Items that will not be reclassified subsequently to profit or loss: | | |
| Unrealised (losses/)gains due to revaluations – revaluation reserve | (2) | (12) |
| Unrealised (losses)/gains due to revaluations – retained earnings | 2 | - |
| Rolled over and held over gains – retained earnings | (5) | - |
| | (5) | (12) |
| Items that may be reclassified subsequently to profit or loss: | | |
| Cash flow hedges | 6 | 9 |
| Total tax credit/(expense)expense recognised in other comprehensive income | 1 | (3) |

**9. Property, plant and equipment**

**Critical accounting judgements**

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

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

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

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

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

## 9. Property, plant and equipment (continued)

**Key sources of estimation uncertainty**

*Revaluation of freehold and long leasehold properties*

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

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

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

A sensitivity analysis of changes in valuation multiples, FMT and the income shortfall deduction, in relation to the properties to which these estimates apply, is provided on page 38. The carrying value of properties to which these estimates apply is £3,585m (2019 £3,779m).

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

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

A sensitivity of changes in forecast cash flows, the discount rate and the long-term growth rate is provided on pages 38 to 39. The carrying value of assets to which these estimates apply is £95m.

Property, plant and equipment can be analysed as follows:

| | Land & buildings £m | Fixtures, fittings & equipment £m | Total £m |
|---|---|---|---|
| **Cost or valuation** | | | |
| At 28 September 2019 | 3,507 | 843 | 4,350 |
| Additions | 19 | 56 | 75 |
| Disposals[a] | (5) | (84) | (89) |
| Revaluation and impairment | (179) | (7) | (186) |
| **At 26 September 2020** | **3,342** | **808** | **4,150** |
| **Depreciation** | | | |
| At 28 September 2019 | 59 | 410 | 469 |
| Provided in the period | 4 | 81 | 85 |
| Disposals[a] | (5) | (84) | (89) |
| **At 26 September 2020** | **58** | **407** | **465** |
| **Carrying amount** | | | |
| **At 26 September 2020** | **3,284** | **401** | **3,685** |
| At 28 September 2019 | 3,448 | 433 | 3,881 |

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

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

**9. Property, plant and equipment (continued)**

**Revaluation of freehold and long leasehold properties**

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

*Sensitivity analysis*

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

*FMT*

The average movement in FMT of revalued properties over the last three financial periods is 1.4%. It is estimated that, given the multiplier effect, a 1.4% change in the FMT of the freehold or long leasehold properties would generate an approximate £45m movement in their valuation.

*Multiples*

Valuation multiples are determined at an individual brand level. Over the last three financial periods, the weighted average brand multiple has moved by an average of 0.2. It is estimated that a 0.2 change in the multiple, would generate an approximate £76m movement in valuation.

*Income shortfall deduction*

The income shortfall deduction is calculated by comparing the site forecast cash flow from the Company FY 2021 forecast, to the Company downside forecast for FY 2021 that was in existence at the balance sheet date. This potential downside scenario of 11.2% reduction in profit, assumed a longer turnaround of profit back to pre-Covid-19 levels. Applying this downside scenario to the income shortfall calculations would result in an approximate £29m reduction in the valuation.

**Impairment review**

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

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

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

*Sensitivity analysis*

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

*Forecast cash flows*

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

*Discount rate*

The discount rate applied in the value in use calculations is the Company WACC. Over the last three financial periods, the discount rate used in impairment reviews has moved by an average of 0.9%. It is estimated that a 0.9% increase in this rate, would generate an additional £7m impairment charge. Similarly, it is estimated that a 0.9% decrease, would reduce the impairment charge by £3m.

**9. Property, plant and equipment (continued)**

**Impairment review (continued)**

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

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

| | 52 weeks ended 26 September 2020 £m | 52 weeks ended 28 September 2019 £m |
|---|---|---|
| **Income statement** | | |
| Revaluation deficit charged as an impairment | (80) | (60) |
| Reversal of past revaluation deficits | 37 | 58 |
| Total impairment arising from the revaluation | (43) | (2) |
| Impairment of short leasehold and unlicensed properties | (2) | (2) |
| Impairment of freehold and long leasehold fixtures and fittings | (7) | - |
| | (52) | (4) |
| **Revaluation reserve** | | |
| Unrealised revaluation surplus | 65 | 169 |
| Reversal of past revaluation surplus | (199) | (98) |
| | (134) | 71 |
| Net (decrease)/increase in property, plant and equipment | (186) | 67 |

The valuation techniques are consistent with the principles in IFRS 13 and use significant unobservable inputs such that the fair value measurement of each property within the portfolio has been classified as Level 3 in the fair value hierarchy. Disclosure of the key inputs to the valuation are provided in the consolidated Annual Report and Accounts 2020 of Mitchells and Butlers plc.

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

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

# Mitchells & Butlers Retail Limited

## Notes to the Financial Statements for the 52 weeks ended 26 September 2020 (continued)

### 9. Property, plant and equipment (continued)

| 28 September 2019 | Number of pubs | Net book value[a] £m |
|---|---|---|
| Freehold properties | 1,128 | 3,505 |
| Long leasehold properties | 82 | 274 |
| Total revalued properties | 1,210 | 3,779 |
| Short leasehold properties | | 83 |
| Unlicensed properties | | 15 |
| Assets under construction | | 4 |
| Total property, plant and equipment | | 3,881 |

a. The carrying value of freehold and long leasehold properties based on their historical cost is £2,242m and £162m respectively (2019 £2,293m and £171m).

**Assets in the course of construction**
Cost at 26 September 2020 includes £5m (2019 £4m) of assets in the course of construction.

### 10. Commitments

**Capital commitments**
The total amount contracted for but not provided in the financial statements in relation to property, plant and equipment was £4m (2019 £12m).

### 11. Investments in subsidiaries

| | £m |
|---|---|
| **Cost** | |
| At 26 September 2020 and 28 September 2019 | 32 |
| **Provision** | |
| At 26 September 2020 and 28 September 2019 | 11 |
| **Carrying amount** | |
| At 26 September 2020 and 28 September 2019 | 21 |

Details of the subsidiaries as at 26 September 2020 are as follows:

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

a. indicates direct investment of the Company

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

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

### 12. Inventories

| | 26 September 2020 £m | 28 September 2019 £m |
|---|---|---|
| Finished goods and goods for resale | 17 | 20 |

### 13. Trade and other receivables

**Current trade and other receivables**

| | 26 September 2020 £m | 28 September 2019 £m |
|---|---|---|
| Trade receivables | 2 | 3 |
| Amounts owed from group undertakings | 1 | 1 |
| Prepayments[a] | 2 | 21 |
| Coronavirus Job Retention Scheme receivable[b] | 8 | - |
| Other receivables | 6 | 2 |
| Total trade and other receivables | 19 | 27 |

**Non-current trade and other receivables**

| | 26 September 2020 £m | 28 September 2019 £m |
|---|---|---|
| Amounts owed from group undertakings[c] | 1,639 | 1,644 |
| Total trade and other receivables | 1,639 | 1,644 |

a. Prepayments have reduced in the current period as a result of the adoption of IFRS 16, as rent prepayments are no longer recognised. See note 22 for further details.
b. Amount due from HMRC in relation to the Coronavirus Job Retention Scheme, as described in note 5.
c. The prior period balance has been restated from current to non-current (as described in note 1). This balance includes an amount of £1,362m (2019 £1,362m) owed by the parent company, Mitchells and Butlers Retail Holdings Limited, £282m (2019 £282m), less a provision of £5m (2019 £nil), owed by the ultimate parent company, Mitchells & Butlers plc.

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

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

The Directors consider that the carrying amount of trade receivables, amounts owed from group undertakings and other receivables approximately equates to their fair value. A lifetime ECL of £3m (2019 £1m) has been recognised against trade receivables and £5m (2019 £nil) against amounts owed from group undertakings.

Credit risk is described in note 16.

## 14. Trade and other payables

| | 26 September 2020 £m | 28 September 2019 £m |
|---|---|---|
| Accrued charges | 64 | 55 |
| Social security and other taxes | 34 | 46 |
| Deferred income | 11 | 10 |
| Other payables | 10 | 11 |
| Amounts owed to group undertakings[a] | 131 | 102 |
| Total trade and other payables | 250 | 224 |

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

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

## 15. Borrowings

| | 26 September 2020 £m | 28 September 2019 £m |
|---|---|---|
| **Maturity profile** | | |
| Amounts falling due within one year | 119 | 95 |
| Amounts falling due after more than one year: | | |
| Between one and two years | 108 | 104 |
| Between two and five years | 368 | 347 |
| After five years | 1,022 | 1,151 |
| | 1,498 | 1,602 |
| Total borrowings | 1,617 | 1,697 |

**Term advances from Mitchells & Butlers Finance plc**

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

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

**Term advances from Mitchells & Butlers Finance plc**

At 26 September 2020 the Term Advances consisted of ten tranches as follows:

| Tranche | Initial principal lent £m | Interest | Principal repayment period (all by instalments) | Effective interest rate % | Principal outstanding at 26 September 2020 £m | Principal outstanding at 28 September 2019 £m | Expected weighted average life[b] (years) |
|---|---|---|---|---|---|---|---|
| A1N | 200 | Floating | 2011 to 2028 | 6.62[a] | 110 | 121 | 4 years |
| A2 | 550 | Fixed – 5.58% | 2003 to 2028 | 5.73 | 201 | 220 | 4 years |
| A3N | 250 | Floating | 2011 to 2028 | 6.70[a] | 138 | 152 | 4 years |
| A4 | 170 | Floating | 2016 to 2028 | 6.38[a] | 128 | 139 | 5 years |
| AB | 325 | Floating | 2020 to 2032 | 6.29[a] | 319 | 325 | 8 years |
| B1 | 350 | Fixed – 5.98% | 2003 to 2023 | 6.13 | 69 | 84 | 2 years |
| B2 | 350 | Fixed – 6.02% | 2015 to 2028 | 6.13 | 284 | 297 | 5 years |
| C1 | 200 | Fixed – 6.48% | 2029 to 2030 | 6.57 | 200 | 200 | 9 years |
| C2 | 50 | Floating | 2033 to 2034 | 6.48[a] | 50 | 50 | 13 years |
| D1 | 110 | Floating | 2034 to 2036 | 6.69[a] | 110 | 110 | 15 years |
| | 2,555 | | | | 1,609 | 1,698 | |

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

### 15. Borrowings (continued)

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

At 26 September 2020 interest and margin is payable on the floating rate Term Advances as follows:

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

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

| | 26 September 2020 £m | 28 September 2019 £m |
|---|---|---|
| Principal outstanding at start of period | **1,698** | 1,785 |
| Principal repaid during the period | **(89)** | (87) |
| Principal outstanding at end of period | **1,609** | 1,698 |
| Deferred issue costs | **(4)** | (5) |
| Accrued interest | **12** | 4 |
| Carrying value at end of period | **1,617** | 1,697 |

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

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

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

At 26 September 2020, the Company had cash and cash equivalents of £63m (2019 £61m) which were governed by the covenants associated with the securitisation. Of these amounts £1m (2019 £1m), representing disposal proceeds, was held on deposit in an account over which there are a number of restrictions. The use of this cash requires the approval of the securitisation trustee and may only be used for certain specified purposes such as capital enhancement expenditure and business acquisitions.

### 16. Hedging Instruments

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

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

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

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

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

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

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

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

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

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

## 16. Hedging Instruments

### Credit risk and impairment (continued)

The Company's credit exposure as at 26 September 2020 was:

| | 12 month ECL 2020 £m | Lifetime ECL 2020 £m | Total 2020 £m | Total 2019 £m |
|---|---|---|---|---|
| Cash and cash equivalents | 63 | - | 63 | 61 |
| Trade receivables | - | 2 | 2 | 3 |
| Other receivables | 6 | - | 6 | 2 |
| Amounts owed by group undertakings | - | 1,640 | 1,640 | 1,645 |

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

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

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

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

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

| | Within 1 year £m | 1-2 years £m | 2-3 years £m | 3-4 years £m | 4-5 years £m | More than 5 years £m | Total £m |
|---|---|---|---|---|---|---|---|
| **26 September 2020** | | | | | | | |
| Term Advances | **(177)** | **(164)** | **(166)** | **(168)** | **(171)** | **(1,155)** | **(2,001)** |
| Interest rate swaps | **(40)** | **(37)** | **(35)** | **(32)** | **(29)** | **(135)** | **(308)** |
| Fixed rate: Term Advances | **(217)** | **(201)** | **(201)** | **(200)** | **(200)** | **(1,290)** | **(2,309)** |
| **28 September 2019** | | | | | | | |
| Term Advances | (162) | (167) | (169) | (171) | (173) | (1,349) | (2,191) |
| Interest rate swaps | (36) | (34) | (32) | (29) | (27) | (139) | (297) |
| Fixed rate: Term Advances | (198) | (201) | (201) | (200) | (200) | (1,488) | (2,488) |

# Mitchells & Butlers Retail Limited

## Notes to the Financial Statements for the 52 weeks ended 26 September 2020 (continued)

### 16. Hedging Instruments (continued)

**Cash flow hedges**

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

| | 52 weeks ended 26 September 2020 £m | 52 weeks ended 28 September 2019 £m |
|---|---|---|
| Losses arising during period | (36) | (94) |
| Reclassification adjustments for losses included in profit or loss | 38 | 37 |
| Net movement in cash flow hedges recognised in equity | 2 | (57) |

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

The six interest rate swaps held with Mitchells & Butlers Finance plc have a nominal value of £855m (2019 £897m). These are designated as a hedge of the cash flow and principal interest rate risk of £855m (2019 £897m) of the Company's floating rate Term Advances, comprising the A1N, A3N, A4, AB, C2 and D1 Term Loans. The cash flows occur quarterly, receiving a fixed rate of interest of 4.85% (2019 4.85%) and paying a floating rate of interest based on LIBOR. The contract maturity dates match those of the hedged item. No hedge ineffectiveness on the interest rate swaps was recognised in profit or loss in the current or prior period.

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

| | 26 September 2020 | | 28 September 2019 | |
|---|---|---|---|---|
| | Book value £m | Fair value £m | Book value £m | Fair value £m |
| Financial assets at amortised cost: | | | | |
| - Cash | 63 | 63 | 61 | 61 |
| - Trade receivables | 2 | 2 | 3 | 3 |
| - Other receivables | 6 | 6 | 2 | 2 |
| - Finance lease receivables | 5 | 5 | - | - |
| - Amounts owed from group undertakings | 1,640 | 1,640 | 1,645 | 1,645 |
| Financial liabilities at amortised cost: | | | | |
| - Borrowings | (1,618) | (1,618) | (1,697) | (1,697) |
| - Lease liabilities | (170) | (170) | - | - |
| - Other payables | (21) | (21) | (21) | (21) |
| - Accrued charges | (62) | (62) | (55) | (55) |
| - Amounts owed to group undertakings | (131) | (131) | (102) | (102) |
| Financial liabilities – derivatives at FVTPL: | | | | |
| - Intercompany interest rate swaps | (299) | (299) | (301) | (301) |

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

## 16. Hedging Instruments (continued)

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

| | Total liabilities | |
|---|---|---|
| | Less than one year £m | More than one year £m |
| **26 September 2020** | | |
| Intercompany interest rate swaps | (40) | (259) |
| **28 September 2019** | | |
| Intercompany interest rate swaps | (36) | (265) |

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

## 17. Leases

**Critical accounting judgements**

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

*Impairment of right-of-use assets*
Judgement is also required when assessing whether a right-of-use asset should be impaired as this requires management to determine the most reliable source for the basis of future cash flows. Where sites have been impacted by expansionary investment in the previous 12 months, management judgement is used to determine the most appropriate source of post investment profitability and cash flow, which is likely to be based on a post investment forecast as the current period trading performance is impacted by a period of closure.

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

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

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

A sensitivity of changes in forecast cash flows, the discount rate and the long-term growth is provided on pages 48 to 49. The carrying value of assets to which these estimates apply is £127m.

# Mitchells & Butlers Retail Limited

## Notes to the Financial Statements for the 52 weeks ended 26 September 2020 (continued)

17. **Leases (continued)**

***Right-of-use assets***

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

| | Land & buildings £m |
|---|---|
| **Cost** | |
| At 28 September 2019 | - |
| Transition to IFRS 16 (see note 22) | 172 |
| Additions[a] | 4 |
| Disposals | (2) |
| **At 26 September 2020** | 174 |
| **Accumulated depreciation and impairment** | |
| At 28 September 2019 | - |
| Transition to IFRS 16 (see note 22) | (19) |
| Provided during the period | (15) |
| Impairment | (13) |
| **At 26 September 2020** | (47) |
| **Net book value** | |
| **At 26 September 2020** | 127 |
| At 28 September 2019 | - |

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

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

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

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

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

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

*Discount rate*
The discount rate applied in the value in use calculations is the Company WACC. Over the last three financial periods, the discount rate used in impairment reviews has moved by an average of 0.9%. It is estimated that a 0.9% increase in this rate, would generate an additional £2m impairment charge. Similarly, it is estimated that a 0.9% decrease, would reduce the impairment charge by £1m.

**17. Leases (continued)**

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

***Sensitivity analysis (continued)***

*Long-term growth rate*
Due to market uncertainty at the balance sheet date, mainly in relation to the ongoing Covid-19 pandemic, no long-term growth is included in the value in use calculations. However, should a long-term growth rate of 2.0% be applied, the impairment charge would reduce by £2m.

***Lease liabilities***

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

| | 26 September 2020 £m |
|---|---|
| **Amounts payable under lease liabilities** | |
| Due within one year | 29 |
| Due between one and five years | 63 |
| Due after five years | 181 |
| Total undiscounted lease liabilities | 273 |
| Less: impact of discounting | (103) |
| Present value of lease liabilities | 170 |
| Analysed as: | |
| Current lease liabilities - amounts due within twelve months | 24 |
| Non-current lease liabilities - amounts due after twelve months | 146 |
| | 170 |

**Finance lease receivables**

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

| | 26 September 2020 £m |
|---|---|
| **Amounts receivable under finance leases** | |
| Due within one year | 1 |
| Due between two and five years | 3 |
| Due after five years | 4 |
| Total undiscounted lease payments | 8 |
| Less: unearned finance income | (3) |
| Present value of lease payments receivable | 5 |
| Net investment in the leases analysed as: | |
| Current finance lease receivables - amounts due within twelve months | 1 |
| Non-current finance lease receivables - amounts due after twelve months | 4 |
| | 5 |

The Directors of the Company estimate the loss allowance on finance lease receivables at the end of the reporting period at an amount equal to lifetime ECL. None of the finance lease receivables at the end of the reporting period is past due, and taking into account the historical default experience and the future prospects of the tenants, the Directors of the Company consider that no finance lease receivable is impaired.

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

**17. Leases (continued)**

***Operating lease receivables – Company as lessor***

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

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

| | 26 September 2020 £m | 28 September 2019 £m |
|---|---|---|
| Due within one year | 6 | 7 |
| Due between one and five years | 18 | 20 |
| Due after five years | 21 | 28 |
| | 45 | 55 |

The total value of future minimum sublease rental receipts included above is £2m (2019 £16m). £nil (2019 £2m) of sublease income has been recognised as rental income in the income statement in the period.

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

**18. Deferred tax**

**Critical accounting judgements**

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

**Key sources of estimation uncertainty**

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

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

| | 26 September 2020 £m | 28 September 2019 £m |
|---|---|---|
| **Deferred tax asset** | | |
| Derivatives | 57 | 51 |
| IFRS 16 transitional adjustments[a] | 2 | - |
| | 59 | 51 |
| **Deferred tax liability** | | |
| Accelerated tax depreciation | (34) | (32) |
| Revaluation of property | (145) | (158) |
| Rolled over and held over gains | (103) | (92) |
| Depreciated non-qualifying assets | (2) | (2) |
| | (284) | (284) |
| | (225) | (233) |

a. Deferred tax recognised on transition to IFRS 16 as shown in note 22.

**18. Deferred tax (continued)**

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

| | 26 September 2020 £m | 28 September 2019 £m |
|---|---|---|
| Deferred tax asset | 59 | 51 |
| Add: Accelerated tax depreciation | (34) | (32) |
| Deferred tax assets | 25 | 19 |
| Deferred tax liability | (284) | (284) |
| Remove: Accelerated tax depreciation | 34 | 32 |
| Deferred tax liabilities | (250) | (252) |
| | (225) | (233) |

| | 52 weeks ended 26 September 2020 £m | 52 weeks ended 28 September 2019 £m |
|---|---|---|
| **Deferred tax in the income statement** | | |
| Accelerated tax depreciation | (2) | 1 |
| Rolled over and held over gains | (6) | - |
| Unrealised losses on revaluations | 13 | - |
| Total deferred tax credit in the income statement | 5 | 1 |

| | 52 weeks ended 26 September 2020 £m | 52 weeks ended 28 September 2019 £m |
|---|---|---|
| **Tax relating to items recognised directly in equity** | | |
| Tax charge related to share based payments | (1) | - |

## 19. Provisions

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

Before the implementation of IFRS 16 in the current period, this provision included rental costs within the net lease commitment. See note 22 for details of the impact of IFRS 16 in the current period.

The provision for unavoidable losses on onerous property leases has been set up to cover fixed service charge payments of vacant or loss-making properties. Payments are expected to continue on these properties for periods of 1 to 70 years.

Provisions can be analysed as follows:

| | Onerous property provisions £m | Dilapidation provision £m | Total property provision £m |
|---|---|---|---|
| At 28 September 2019 | 6 | 1 | 7 |
| Transferred to retained earnings on adoption of IFRS 16[a] | (6) | - | (6) |
| Provided in the period | - | 1 | 1 |
| At 26 September 2020 | - | 2 | 2 |

a. On transition to IFRS 16 a full impairment review of right-of-use assets has been completed rather than adopting the practical expedient to rely on the onerous lease provision as the assessment of impairment. As a result, provisions relating to lease rental costs are transferred to retaining earnings (see note 22).

## 20. Equity

**Share Capital**

| Allotted, called up and fully paid | 26 September 2020 No. | 26 September 2020 £ | 28 September 2019 No. | 28 September 2019 £ |
|---|---|---|---|---|
| Ordinary shares of £1 each[a] | 50,882,000 | 50,882,000 | 3,882,000 | 3,882,000 |
| Ordinary shares of £0.0001 each | 214,000,000 | 21,400 | 214,000,000 | 21,400 |
| | 264,882,000 | 50,903,400 | 217,882,000 | 3,903,400 |

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

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

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

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

## 21. Dividends

During the period, the Company has paid dividends of £10m (2019 £25m). Dividend payments are made by the Company to its immediate parent undertaking, Mitchells & Butlers Retail Holdings Limited.

The Directors are proposing a final dividend of £nil (2019 £nil).

## 22. Adoption of IFRS 16 Leases

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

*Impact of IFRS 16 on the financial statements*

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

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

| | £m |
|---|---|
| Total operating lease commitments at 28 September 2019 | 247 |
| Reconciling items: | |
| Lease commitments for periods post break clauses | 27 |
| Assumed lease extensions | 5 |
| Operating lease liabilities before discounting | 279 |
| Impact of discounting using incremental borrowing rate | (106) |
| Total lease liabilities recognised under IFRS 16 at 29 September 2019 | 173 |

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

| | £m |
|---|---|
| Total lease liabilities recognised under IFRS 16 at 29 September 2019 | 173 |
| Reconciling items: | |
| Lease premiums | 1 |
| Lease incentives | (1) |
| Lease prepayments | 5 |
| Dilapidations costs | 1 |
| Impairment recognised on right-of-use assets | (19) |
| Sub-leases derecognised and recognised as finance lease receivables | (7) |
| Total right-of-use assets recognised under IFRS 16 at 29 September 2019 | 153 |

*Balance sheet*

The impact on the opening balance sheet is summarised below:

| | Closing balance sheet at 28 September 2019 | IFRS 16 impact | Opening balance sheet at 29 September 2019 |
|---|---|---|---|
| | £m | £m | £m |
| Lease premiums | 1 | (1) | - |
| Right-of-use assets | - | 153 | 153 |
| Finance lease receivables – non-current | - | 5 | 5 |
| Finance lease receivables – current | - | 1 | 1 |
| Deferred tax asset | 19 | 2 | 21 |
| Trade and other receivables | 1,671 | (5) | 1,666 |
| Trade and other payables | (224) | 3 | (221) |
| Lease liabilities – current | - | (12) | (12) |
| Lease liabilities – non-current | - | (161) | (161) |
| Provisions | (7) | 6 | (1) |
| Retained earnings[a] | 2,313 | (9) | 2,304 |

a Movement in the opening balance of retained earnings represents the impairment review of £19m on right-of-use assets and £1m on finance lease receivables, offset by the reversal of onerous lease provision of £6m, rent review accruals no longer required under IFRS 16 of £2m, dilapidations on the right-of-use assets already charged through the income statement of £1m and an increase of £2m in relation to the deferred tax asset.

**22. Adoption of IFRS 16 Leases (continued)**

*Income statement*

The Company has recognised depreciation and interest costs in respect of leases that were previously classified as operating leases in the income statement for the period, rather than rental charges. During the 52 weeks ended 26 September 2020, the Company recognised £15m of depreciation charges and £6m of interest costs in respect of these leases. In addition, the Company has recognised an impairment of £13m as a separately disclosed items at the half year.

**23. Contingent liabilities**

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

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

**24. Ultimate parent undertaking**

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

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

**Relationship between entity and parents**

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

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

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

**25. Post balance sheet events**

On 31 October 2020, the UK Government announced a second national lockdown to be effective in England from 5 November 2020 to 2 December 2020. This resulted in mandatory closure of all of the Group's trading sites in England on 5 November 2020. The impact of this has been included in the going concern assessment in note 1.

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

***Property, plant and equipment (Note 12)***

***Revaluation of freehold and long leasehold properties***

A revised site level forecast, that forms the basis of the FY 2021 Company forecast used in the going concern assessment, has been applied to determine a revised income shortfall for FY 2021. The impact of this would have been a reduction in the value of freehold and long leasehold properties of £37m.

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

A revised site level forecast, that forms the basis of the FY 2021 Company forecast used in the going concern assessment, has been applied to determine revised value in use calculations. The impact of this would have been an additional impairment charge of £1m.

***Leases (Note 20)***

***Impairment review of right-of-use assets***

A revised site level forecast, that forms the basis of the FY 2021 Company forecast used in the going concern assessment, has been applied to determine revised value in use calculations.

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