Mitchells & Butlers Retail Limited

Unaudited Semi-Annual Financial Statements

For the 28 weeks ended 11 April 2020

Registration Number: 24542

Mitchells & Butlers Retail Limited
Income statement for the 28 weeks ended 11 April 2020

	Notes	28 weeks ended 11 April 2020 £m	28 weeks ended 13 April 2019 £m	52 weeks ended 28 September 2019 £m
Revenue		**776**	**890**	1,674
Operating costs		**(673)**	**(749)**	(1,397)
Separately disclosed items	2	**(133)**	**-**	(4)
OPERATING (LOSS)/PROFIT	2	**(30)**	**141**	273
Finance revenue	3	**-**	**1**	1
Finance costs	4	**(61)**	**(62)**	(113)
(LOSS)/PROFIT BEFORE TAXATION		**(91)**	**80**	161
Tax credit/(expense)	5	**10**	**(12)**	(23)
(LOSS)/PROFIT FOR THE PERIOD		**(81)**	**68**	138

The above results are derived from continuing operations.

Mitchells & Butlers Retail Limited

Statement of comprehensive income and expense
for the 28 weeks ended 11 April 2020

	Notes	28 weeks ended 11 April 2020 £m	28 weeks ended 13 April 2019 £m	52 weeks ended 28 September 2019 £m
(LOSS)/PROFIT FOR THE PERIOD		**(81)**	**68**	138
Items that will not be reclassified subsequently to profit or loss:				
Unrealised (loss)/gain on revaluation of the property portfolio		**(345)**	**-**	71
Tax relating to items not reclassified	5	**32**	**1**	(12)
		(313)	**1**	59
Items that may be reclassified subsequently to profit or loss:				
Cash flow hedges:				
-Losses arising during the period		**(10)**	**(27)**	(94)
-Reclassification adjustments for items included in profit or loss		**18**	**18**	37
Tax credit relating to items that may be reclassified	5	**4**	**1**	9
		12	**(8)**	(48)
OTHER COMPREHENSIVE (EXPENSE)/INCOME AFTER TAX		**(301)**	**(7)**	11
TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE PERIOD		**(382)**	**61**	149

Mitchells & Butlers Retail Limited

(Registration number: 24542)

Balance sheet as at 11 April 2020

	Notes	11 April 2020 £m	13 April 2019 £m	28 September 2019 £m
NON-CURRENT ASSETS				
Property, plant and equipment	7	**3,439**	**3,816**	3,881
Right of use assets	12	**140**	**-**	-
Investments in subsidiaries		**21**	**21**	21
Lease receivable[a]		**5**	**-**	-
Deferred tax asset[a]		**21**	**12**	19
Lease premiums		**-**	**1**	1
TOTAL NON-CURRENT ASSETS		**3,626**	**3,850**	3,922
CURRENT ASSETS				
Inventories		**15**	**21**	20
Trade and other receivables[a]	8	**1,680**	**1,667**	1,671
Cash and cash equivalents		**47**	**69**	61
TOTAL CURRENT ASSETS		**1,742**	**1,757**	1,752
TOTAL ASSETS		**5,368**	**5,607**	5,674
CURRENT LIABILITIES				
Trade and other payables[a]	9	**(266)**	**(237)**	(224)
Corporation tax liabilities		**4**	**(6)**	(11)
Borrowings	10	**(101)**	**(89)**	(95)
Lease liabilities[a]	12	**(22)**	**-**	-
Derivative financial instruments	11	**(37)**	**(36)**	(36)
TOTAL CURRENT LIABILITIES		**(422)**	**(368)**	(366)
NET CURRENT ASSETS		**1,320**	**1,389**	1,386
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,946**	**5,239**	5,308
NON-CURRENT LIABILITIES				
Borrowings	10	**(1,555)**	**(1,656)**	(1,602)
Lease liabilities[a]	12	**(150)**	**-**	-
Derivative financial instruments	11	**(255)**	**(216)**	(265)
Deferred tax liabilities		**(204)**	**(240)**	(252)
Provisions[a]		**(1)**	**(8)**	(7)
TOTAL NON-CURRENT LIABILITIES		**(2,165)**	**(2,120)**	(2,126)
TOTAL LIABILITIES		**(2,587)**	**(2,488)**	(2,492)
NET ASSETS		**2,781**	**3,119**	3,182
EQUITY				
Share capital		**4**	**4**	4
Hedging reserve		**(238)**	**(210)**	(250)
Revaluation reserve		**809**	**1,057**	1,115
Profit and loss account[a]		**2,206**	**2,268**	2,313
TOTAL EQUITY		**2,781**	**3,119**	3,182

a During the period, the Company has adopted IFRS16 which requires lease liabilities and corresponding right-of-use assets to be recognised on the balance sheet. The Company has adopted IFRS16 using the modified retrospective approach. As a result, prior year comparatives have not been restated. See note 12 for details of transitional impact.

Mitchells & Butlers Retail Limited

Statement of Changes in Equity for the 28 weeks ended 11 April 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	-	-	-	68	68
Other comprehensive (expense)/income	-	-	(8)	1	(7)
Total comprehensive (expense)/income	-	-	(8)	69	61
At 13 April 2019	4	1,057	(210)	2,268	3,119
Profit for the period	-	-	-	70	70
Other comprehensive income/(expense)	-	59	(40)	(1)	18
Total comprehensive income/(expense)	-	59	(40)	69	88
Transfer on disposal	-	(1)	-	1	-
Dividends	-	-	-	(25)	(25)
At 28 September 2019 (audited)	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	-	-	-	(81)	(81)
Other comprehensive (expense)/income	-	(306)	12	(7)	(301)
Total comprehensive (expense)/income	-	(306)	12	(88)	(382)
Dividends	-	-	-	(10)	(10)
At 11 April 2020	4	809	(238)	2,206	2,781

a During the period, the Company has adopted IFRS16 which requires lease liabilities and corresponding right-of-use assets to be recognised on the balance sheet. The Company has adopted IFRS16 using the modified retrospective approach. See note 12 for details of transitional impact.

1. BASIS OF PREPARATION

Mitchells & Butlers Retail Limited ('the Company') is a subsidiary company of Mitchells & Butlers plc. Mitchells & Butlers plc, along with its subsidiaries, form the Mitchells & Butlers group of companies ('the Group').

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 financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions.

The financial information for the 52 weeks ended 28 September 2019 has been extracted from the Company's published financial statements for that period, which contain an unqualified audit report and which have been filed with the Registrar of Companies and did not include an emphasis of matter reference, or any statement required under Section 498(2) or (3) of the Companies Act 2006.

The periods ended 11 April 2020 and 13 April 2019 are regarded as distinct financial periods for accounting purposes; income and costs are recognised in the profit and loss account as they arise; tax is calculated on the basis of the expected effective tax rate for the full year.

These semi-annual financial statements have been prepared in order to meet the financial reporting requirements included in the Issuer/Borrower Facility Agreement dated 13 November 2003, as amended and restated on 15 September 2006 (the "Agreement"). A reconciliation of information contained in these financial statements to a separately issued Interim Investor Report is attached as a supplementary schedule to these accounts.

The semi-annual financial statements do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. As a result of the enforced closure of all pubs and restaurants across England, Scotland and Wales, as announced by the Government on 20 March 2020 in response to the Covid-19 pandemic, the interim financial information has not been reviewed by the Company's auditor.

New standards and interpretations

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.

The impact of implementing IFRS 16 is shown in note 12.

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, at transition. As a result, there is no requirement to restate prior period information.

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. Under IFRS 16, a contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company has also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 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 Consolidated Balance Sheet, split between current and non-current liabilities.

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

At the half year the Company has applied the practical relief available during the Covid-19 pandemic, which provides lessees with relief from applying lease modification accounting to Covid-19 related rent concessions.

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 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". 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 has resulted in an impairment charge of £19m which is presented as an opening reserves adjustment (see note 12). 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 IFRS16 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.

The Company as lessor

The Company enters into lease agreements as a lessor with respect to some of its properties.

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 sublease as two separate contracts. The sublease 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.

2. OPERATING PROFIT

	28 weeks ended 11 April 2020 £m	28 weeks ended 13 April 2019 £m	52 weeks ended 28 September 2019 £m
EBITDA	**159**	192	368
Depreciation and amortisation	**(56)**	(51)	(91)
Separately disclosed items	**(133)**	-	(4)
Operating (Loss)/Profit	**(30)**	141	273

Separately disclosed items

In addition to presenting information on an IFRS basis, the Company also presents adjusted profit information that excludes separately disclosed items. 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

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:

- Costs directly associated with the closure of pubs as a result of the Covid-19 virus are considered to be separately disclosed due to their size and one-off nature.
- 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.
- Movement in the value of right-of-use assets – the impairment review of right-of-use assets is disclosed separately due to its potential volatility, which can be partly driven by movements in discount rate.

The items identified are as follows:

	28 weeks ended 11 April 2020 £m	28 weeks ended 13 April 2019 £m	52 weeks ended 28 September 2019 £m
Costs directly associated with the Covid-19 pandemic[a]	**(8)**	-	-
Movements in the valuation of the property portfolio:			
- Impairment arising from revaluation[b]	**(115)**	-	(2)
- Impairment of short leasehold and unlicensed properties[c]	-	-	(2)
- Impairment of freehold and long leasehold tenant's fixtures and fittings[d]	**(2)**	-	-
	(117)	-	**(4)**
Impairment of right-of-use assets[e]	**(8)**	-	-
Total adjusted items	**(133)**	**-**	**(4)**

2. OPERATING PROFIT (CONTINUED)

a. Costs directly associated with the Covid-19 pandemic primarily relate to the disposal of stock items at site that are beyond usable dates as a result of the government enforced closure of pubs. These costs are not considered to be part of normal trading activity.
b. 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 7).
c. Impairment of short leasehold and unlicensed properties where their carrying values exceed their recoverable amount, net of an impairment reversal where carrying values have been increased to the recoverable amounts (see note 7).
d. Impairment of freehold and long leasehold tenant's fixtures and fittings, where their carrying value exceeds recoverable amount (see note 7).
e. Impairment of right-of-use assets where their carrying values exceed their recoverable amount (see note 12).

3. FINANCE REVENUE

	28 weeks ended 11 April 2020 £m	28 weeks ended 13 April 2019 £m	52 weeks ended 28 September 2019 £m
Finance revenue intercompany	**-**	1	1

4. FINANCE COSTS

	28 weeks ended 11 April 2020 £m	28 weeks ended 13 April 2019 £m	52 weeks ended 28 September 2019 £m
Intercompany interest on Term Advances	**(57)**	(60)	(109)
Liquidity facility fees reimbursed to Mitchells & Butlers Finance plc	**(1)**	(2)	(4)
Interest on lease liabilities	**(3)**	-	-
Total finance costs	**(61)**	(62)	(113)

5. TAXATION

Taxation – income statement	28 weeks ended 11 April 2020 £m	28 weeks ended 13 April 2019 £m	52 weeks ended 28 September 2019 £m
Current taxation:			
UK corporation tax	-	(16)	(30)
UK corporation tax adjustments to prior periods	-	1	4
Group relief received for nil payment	-	1	2
	-	(14)	(24)
Deferred taxation:			
Arising from origination and reversal of temporary differences	**15**	2	2
Adjustments in respect of prior periods	-	-	(1)
Arising from changes in tax rates and laws	**(5)**	-	-
	10	2	1
Total tax credit/(expense) recognised in the income statement	**10**	(12)	(23)

5. TAXATION (CONTINUED)

	28 weeks ended 11 April 2020 £m	28 weeks ended 13 April 2019 £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	**39**	-	(12)
Unrealised (gains)/losses due to revaluations – retained earnings	**(1)**	1	-
Rolled over and held over gains – retained earnings	**(6)**	-	-
	32	1	(12)
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges	**4**	1	9
Total tax credit/(charge) recognised in other comprehensive income	**36**	2	(3)

The tax charge in the interim statement is wholly attributable to deferred tax. Although there is a taxable profit at the half year the full year results are expected to be an overall allowable tax loss and no corporation tax is expected to be payable for the 52 weeks ended 26 September 2020.

Tax has been calculated using an estimated annual effective rate of 23.8% (2019 28 weeks 19.0%) on profit before tax.

The Finance Act 2016 was substantively enacted on 15 September 2016 and reduced the main rate of corporation tax to 17% from 1 April 2020. The effect of these changes has been reflected in the closing deferred tax balances at 13 April 2019 and 28 September 2019.

On 17 March 2020 a resolution was passed by Parliament under the Provisional Collection of Taxes Act 1968 which substantively enacted a change in the main rate of corporation tax from 1 April 2020. The resolution superseded existing legislation and replaced the proposed main rate of corporation tax of 17% with a rate of 19%. The effect of this change has been reflected in the closing deferred tax at 11 April 2020.

6. DIVIDENDS

During the period, the Company has paid dividends of £10m (2019 28 weeks nil, 52 weeks £25m). Dividend payments are made by the Company to its immediate parent undertaking, Mitchells & Butlers Retail Holdings Limited.

7. PROPERTY, PLANT AND EQUIPMENT

Critical accounting judgements
The revaluation methodology is determined using management judgement, with advice from third-party valuers. The application of a valuation multiple to the fair maintainable trade of each site is considered the most appropriate method for the 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 FMT. The FMT is taken as the post investment forecast, as the current year trading performance includes a period of closure.

Key sources of estimation uncertainty
The application of the valuation methodology requires two critical accounting estimates; the estimation of valuation multiples, which are determined via third-party inspections; and an estimate of fair maintainable trade, including reference to historic and future projected income levels. A sensitivity analysis of changes in valuation multiples and FMT, in relation to the properties to which these estimates apply, is provided on page 10. The carrying value of properties to which these estimates apply is £3,334m (2019 £3,779m).

7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land & buildings £m	Fixtures, fittings & equipment £m	Total £m
Cost or valuation			
At 28 September 2019	3,507	843	4,350
Additions	17	51	68
Disposals[a]	(1)	(55)	(56)
Decrease as a result of the revaluation and impairment review	(460)	(2)	(462)
At 11 April 2020	**3,063**	**837**	**3,900**
Depreciation			
At 28 September 2019	59	410	469
Provided in the period	2	45	47
Disposals[a]	-	(55)	(55)
At 11 April 2020	**61**	**400**	**461**
Carrying amount			
At 11 April 2020	**3,002**	**437**	**3,439**
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.

Revaluation of freehold and long leasehold properties

We have undertaken a Directors' valuation of the freehold and long leasehold properties at fair value as at 11 April 2020, following consultation with CBRE, independent chartered surveyors, with respect of appropriate methodology. The valuation was carried out in accordance with the RICS Valuation – Global Standards 2017 which incorporate the International Valuation Standards and the RICS Valuation – Professional Standards UK January 2014 (revised April 2015) (the 'Red Book') assuming each asset is sold as fully operational trading entity. The fair value has been determined having regard to factors such as current and future projected income levels, taking account of location, quality of the pub restaurant and recent market transactions in the sector.

At the interim date there have been no site inspections as the third-party valuer, CBRE, was unable to gain access to properties due to social distancing measures in place as a result of Covid-19. As a result, brand multiples applied at 2019 form the basis for the interim review, with a reduction of 1.0x multiple applied to all brands. In addition, the final valuation is reduced by the estimated loss of profits resulting from enforced pub closures and estimated build up in trade post re-opening. This includes an estimated full closure of sixteen weeks and subsequent build up in trade back to normal levels for the following nine months.

Sensitivity analysis
Changes in either the FMT or the multiple could materially impact the valuation of the freehold and long leasehold properties. The average movement in FMT of revalued properties in the prior three years is 1.1%. It is estimated that, given the multiplier effect, a 1.1% change in the FMT of the freehold or long leasehold properties would generate an approximate £35m movement in their valuation.

Multiples are determined at an individual brand level. Over the prior three years, the weighted average of all brand multiples has moved by an average of 0.1. It is estimated that a 0.1 change in the multiple, would generate an approximate £40m movement in valuation.

Year on year movements in valuation multiples are the result of changes in property market conditions.

Impairment review of short leasehold and unlicensed properties
Short leasehold and unlicensed properties (comprising land and buildings and fixtures, fittings and equipment) which are not revalued to fair market value, are reviewed for impairment by comparing site recoverable amount to their carrying values. Value in use calculation uses forecast trading performance cash flows, which are discounted by applying a pre-tax discount rate of 8.1% (2019 7.7%). Any resulting impairment relates

7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

to sites with poor trading performance, where the resulting calculation is insufficient to justify their current net book value.

Current year 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:

	28 weeks ended 11 April 2020 £m	52 weeks ended 28 September 2019 £m
Income statement		
Revaluation deficit charged as an impairment	**(133)**	(60)
Reversal of past revaluation deficits	**18**	58
Total impairment arising from the revaluation	**(115)**	(2)
Impairment of short leasehold and unlicensed properties	**-**	(2)
Impairment of freehold and long leasehold tenant's fixtures and fittings	**(2)**	-
	(117)	(4)
Revaluation reserve		
Unrealised revaluation surplus	**24**	169
Reversal of past revaluation surplus	**(369)**	(98)
	(345)	71
Net (decrease)/increase in property, plant and equipment	**(462)**	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 Interim Financial Statements HY2020 of Mitchells and Butlers plc.

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

At 11 April 2020	**Number of pubs**	**Net book value £m**
Freehold properties	**1,128**	**3,101**
Long leasehold properties	**81**	**233**
Total revalued properties	**1,209**	**3,334**
Short leasehold properties		**85**
Unlicensed properties		**16**
Assets under construction		**4**
Total property, plant and equipment		**3,439**

At 28 September 2019	**Number of pubs**	**Net book value £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

7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Assets in the course of construction
Cost at 11 April 2020 includes £4m (2019 £4m) of assets in the course of construction.

8. TRADE AND OTHER RECEIVABLES

	11 April 2020 £m	13 April 2019 £m	28 September 2019 £m
Trade receivables	**2**	2	3
Amounts owed by other group undertakings[a]	**1,645**	1,644	1,645
Prepayments	**8**	17	21
Other receivables	**25**	4	2
Total trade and other receivables	**1,680**	1,667	1,671

a. Includes an amount of £1,362m (13 April 2019 £1,362m, 28 September 2019 £1,362m) owed by Mitchells & Butlers Retail Holdings Ltd and £282m (13 April 2019 £282m, 28 September 2019 £282m) owed by Mitchells & Butlers plc. These amounts are non-interest bearing loans.

The directors consider that the carrying amount of trade receivables, amounts owed from group undertakings and other receivables approximately equates to their fair value.

9. TRADE AND OTHER PAYABLES

	11 April 2020 £m	13 April 2019 £m	28 September 2019 £m
Accrued expenses	**31**	48	40
Social security and other taxes	**37**	48	46
Other payables	**38**	36	36
Amounts owed to group undertakings[a]	**160**	105	102
Total trade and other payables	**266**	237	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.

10. BORROWINGS

On 13 November 2003, the Group refinanced its debt by raising £1,900m through a securitisation of the majority of its UK pubs and restaurants whereby Mitchells & Butlers Finance plc, a fellow subsidiary within the Group, issued £1,900m of secured loan notes to third party investors and on-lent the proceeds to the Company under the Agreement. On 15 September 2006, Mitchells & Butlers Finance plc issued an incremental £655m of secured loan notes to third party investors, in addition to refinancing £450m of Floating Rate Notes and on-lent the proceeds to the Company under the Agreement as amended and restated.

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 in the following six tranches:

- Class A1N floating rate Term Advance for £200m
- Class A2 5.584% Term Advance for £550m
- Class A3N floating rate Term Advance for £250m
- Class B1 5.975% Term Advance for £350m
- Class B2 6.023% Term Advance for £350m
- Class C1 6.479% Term Advance for £200m

10. BORROWINGS (CONTINUED)

On 15 September 2006, the Company borrowed a further £655m from Mitchells & Butlers Finance plc in the following four tranches. As part of the transaction, the original A1 and A3 Term Advances were repaid and reissued as A1N and A3N Term Advances to take advantage of market rates.

- Class A4 floating rate Term Advance for £170m
- Class AB floating rate Term Advance for £325m
- Class C2 floating rate Term Advance for £50m
- Class D1 floating rate Term Advance for £110m

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%

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

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

	11 April 2020 £m	**13 April 2019 £m**	**28 September 2019 £m**
Principal outstanding at beginning of the period	**1,698**	1,785	1,785
Principal repaid during the period	**(45)**	(43)	(87)
Principal outstanding at end of period	**1,653**	1,742	1,698
Deferred issue costs	**(4)**	(5)	(5)
Accrued interest	**7**	8	4
Carrying value at end of period	**1,656**	1,745	1,697
Maturity profile:			
Amounts falling due within one year	**101**	89	95
Amounts falling due after more than one year	**1,555**	1,656	1,602
	1,656	1,745	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. At 11 April 2020, the Company had cash and cash equivalents of £47m (13 April 2019 £69m, 28 September 2019 £61m). Of this amount £1m (13 April 2019 £1m, 28 September 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.

11. FINANCIAL INSTRUMENTS

Derivative Financial Instruments

The fair value of the derivative financial instruments are disclosed below:

	Total Liabilities		
	Less than one year	More than one year	Total
11 April 2020	**£m**	**£m**	**£m**
Cash flow hedges			
Intercompany interest rate swaps	**37**	**255**	**292**

	Total Liabilities		
	Less than one year	More than one year	Total
13 April 2019	**£m**	**£m**	**£m**
Cash flow hedges			
Intercompany interest rate swaps	36	216	252

	Total Liabilities		
	Less than one year	More than one year	Total
28 September 2019	**£m**	**£m**	**£m**
Cash flow hedges			
Intercompany interest rate swaps	36	265	301

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.

12. 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	248
Reconciling items:	
Short term leases	-
Lease commitments for periods post break clauses	26
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	(19)
Non-current sub-leases derecognised and recognised as finance lease receivables	(5)
Current sub-leases derecognised and recognised as finance lease receivables	(2)
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
Lease receivable – non-current	-	5	5
Deferred tax asset	19	2	21
Trade and other receivables	1,671	(3)	1,668
Trade and other payables	(224)	2	(222)
Lease liabilities – current	-	(12)	(12)
Lease liabilities – non-current	-	(161)	(161)
Provisions	(7)	6	(1)
Retained reserves[a]	2,313	(9)	2,304

a Movement in the opening balance of retained earnings represents the impairment review of £19m, offset by the reversal of onerous lease provision of £6m, rent review accruals no longer required under IFRS 16 of £1m, 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.

12. 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 28 weeks ended 11 April 2020, the Company recognised £9m of depreciation charges and £3m of interest costs in respect of these leases. In addition, the Company has recognised an impairment of £8m as a separately disclosed items at the half year.

Right-of-use assets

Details of the movement in values of right-of-use assets from transition, at 29 September 2019, to 11 April 2020 are as follows:

	Total £m
At transition to IFRS 16	153
Additions	4
Depreciation provided during the period	(9)
Impairment	(8)
At 11 April 2020	**140**

Impairment of right-of-use assets

Right-of-use assets are reviewed for impairment by comparing site recoverable amounts to their carrying values. Any resulting impairment relates to sites with poor forecast trading performance, where the output of the calculation 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 assets classified within property, plant and equipment, as an individual site is a single cash generating unit.

Value in use calculations use forecast trading performance cash flows, which are discounted by applying a pre-tax discount rate of 8.1%. At the interim date, the value in use calculations include the estimated impact of expected closure period and subsequent build up in trade post re-opening, as a direct result of the Covid-19 pandemic.

Critical accounting judgements

The impairment review is determined using management judgement of future profitability. Where sites have been impacted by expansionary capital investment in the preceding 12 months, management judgement is used to determine the most appropriate level of post investment profitability and is likely to be based on a post investment forecast, as the current year trading performance includes a period of closure.

Key sources of estimation uncertainty

Key sources of estimation uncertainty include determining future profitability, both with reference to historical performance and future short-term profits and the expectation of likely lease expiry given tenant break option clauses.

Lease liabilities

At 11 April 2020, the lease liabilities recognised are as follows:

	2020 11 April £m
Current lease liabilities	**(22)**
Non-current lease liabilities	**(150)**
	(172)

13. 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 group, for all advances made by Mitchells & Butlers Finance plc to the Company and other companies within the Mitchells & Butlers group, under the Agreement.

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

14. POST BALANCE SHEET EVENT

Securitised debt
On 11 June 2020 certain amendments and waivers were agreed with Ambac Assurance UK Ltd (as controlling creditor of the secured financing structure) and HSBC (C.I) Trustee (as Trustee of the secured financing structure), to mitigate against the impacts of the Covid-19 pandemic. Under the terms of the agreement, the financial covenant test in respect of the debt service coverage ratio has been waived until July 2021 (in respect of the six month look-back test) and until September 2021 (in respect of the twelve month look-back test). Further key points are: a) the securitised Liquidity Facility can be used to fund debt service costs in June 2020 and September 2020 (up to a maximum amount of £100m), with all amounts having to be repaid by March 2021; b) the requirement to spend a minimum amount of capital maintenance expenditure is waived for periods of closure due to Covid-19. The Group is also committed to provide funding into the securitised financing structure, of up to £100m in line with drawings under the securitised Liquidity Facility.

Liquidity facility
On 15 June 2020 the facility was drawn in an amount of £47m to fund debt service costs of the Mitchells & Butlers Finance plc, the securitisation Issuer, in line with the waivers obtained on 11 June 2020.

Securitised Funding
On 16 June 2020 the group subscribed for additional equity in the Company in an amount of £47m, in line with the commitments made on the 11 June 2020, to provide additional funding to the securitisation structure.

Reconciliation between Interim Investor Report and the Semi-Annual Financial Statements for the 28 weeks ended 11 April 2020

Separately disclosed items consist of those detailed in note 2 of the semi-annual financial statements.

	Final Investor Report £m	IFRS 16 Adjustments £m	Separately disclosed items £m	Financial Statements £m
Turnover	776.3	0.0	0	776
Operating costs	(676.6)	3.0	(133)	(806)
Operating profit/(loss)	99.7	3.0	(133)	(30)
Add back: Separately disclosed items	0.0	0.0	133	133
Add back: Depreciation and amortisation	47.3	8.6	0	56
EBITDA	147.0	11.6	0	159

The IFRS 16 adjustments within operating profit are detailed below:

	£m
Include rent receivable	(0.6)
Include rent payable	12.2
EBITDA adjustment	11.6
Remove right-of-use asset depreciation	(8.6)
Operating profit/(loss) adjustment	3.0