MITCHELLS & BUTLERS PLC
LEI no: 213800JHYNDNB1NS2W10

26 November 2020

FULL YEAR RESULTS

(For the 52 weeks ended 26 September 2020)

Highlights

- Decisive and effective action taken to protect guests and team members and to reduce costs
- New financing arrangements provide security and flexibility
- Strong operational performance demonstrated on reopening in July
- Online feedback scores strengthened following July reopening
- Well positioned to benefit from future easing in operating restrictions

Reported results

- Total revenue of £1,475m declined by 34.1% (FY 2019 £2,237m)
- Operating profit of £8m (FY 2019 £297m)
- (Loss)/profit before tax of £(123)m (FY 2019 £177m)
- Basic (loss)/earnings per share of (26.2)p (FY 2019 33.5p)

Trading results

- Full year includes period of enforced closure due to Covid-19 from 20 March to 4 July
- Like-for-like sales[a] decline of 3.5% remained consistently ahead of the market[b]
- Adjusted operating profit[a] £99m (FY 2019 £317m)
- Adjusted (loss)/earnings per share[a] (6.3)p (FY 2019 37.2p)

Balance sheet and cash flow

- Cash flow from operating activities of £127m (FY 2019 £266m) despite shortfall in trading
- Net debt of £1,563m flat across the year (FY 2019 £1,564m). £2,104m including lease liabilities following the adoption of IFRS16
- Net cash and cash equivalents of £158m and undrawn unsecured facilities of £140m as at the year end
- Unsecured committed financing facilities increased by £100m to total £250m to 31 December 2021
- Capital investment of £108m (FY 2019 £152m), including 167 conversions and remodels (FY 2019 240), primarily in the first half
- Full property valuation and impairment review undertaken in September resulting, subject to material uncertainty, in an overall decrease in book value of £208m

Phil Urban, Chief Executive, commented:

"Throughout a very uncertain and challenging year our businesses and teams have adapted quickly, creating a safe environment for guests and putting us in a strong position to benefit when consumers are able to eat out again. We saw direct evidence of this from a strong trading period in July and August before further restrictions came into force.

With our great estate, balanced portfolio of brands and proven management team, we remain optimistic that we will be able to regain the momentum previously built and continue to achieve sustained market outperformance, when the current operating restrictions are eased."

Definitions

a – The Directors use a number of alternative performance measures (APMs) that are considered critical to aid the understanding of the Group's performance. APMs are defined later in this announcement.

b – As measured by the Coffer Peach business tracker.

There will be a presentation held today at 8:30am accessible by phone on 0203 936 2999 access code: 213596, and at www.incommuk.com/customers/online access code: 213596. The slides will be available on our website at www.mbplc.com. The replay will be available until 10 December 2020 on 0203 936 3001, access code: 361779.

All disclosed documents relating to these results are available on the Group's website at www.mbplc.com

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Note for editors:

Mitchells & Butlers is a leading operator of managed restaurants and pubs. Its portfolio of brands and formats includes Harvester, Toby Carvery, All Bar One, Miller & Carter, Premium Country Pubs, Sizzling Pubs, Stonehouse, Vintage Inns, Browns, Castle, Nicholson's, O'Neill's and Ember Inns. In addition, it operates Innkeeper's Collection hotels in the UK and Alex restaurants and bars in Germany. Further details are available at www.mbplc.com and supporting photography can be downloaded at www.mbplc.com/imagelibrary.

BUSINESS REVIEW

This financial period has been dominated by the impact Covid-19 has had on the organisation and the wider industry. Like-for-like sales[a] over the period declined by 3.5% with a strong start to the year superseded by the subsequent impact of a prolonged period of enforced closure and social distancing restrictions. Total sales of £1,475m declined by 34.1% reflecting the closure period from 20 March to 4 July.

Adjusted operating profit[a] of £99m declined by 68.8% and a statutory loss before tax of £(123)m was recognised for the period.

Before Covid-19 we had enjoyed a strong start to FY 2020, with particularly good growth over the festive period. Like-for-like sales[a] growth had remained consistently ahead of the market[b] and we continued to see the beneficial impact of our Ignite programme of work coming through in results. This was reflected in stronger margins, better labour control and generally tighter cost management resulting in operating profit growth. We had just refreshed the range of Ignite initiatives, such that we were confident of maintaining and building on the momentum we had created.

As the Covid-19 pandemic began to spread across the country, the business initially proved to be very resilient, and it was not until the Prime Minister started to advise people to not visit pubs and restaurants that we saw a negative impact in our sales. When the full lockdown was announced on 20 March we closed the business immediately, with our priority being to protect our team members and guests and to ensure the safe closure of each site. A number of measures were taken from the outset of the crisis to protect the business including:

- putting over 99% of our employees on furlough;
- quickly reducing operating costs to the minimum required to keep the estate secure, safe and in good condition;
- halting all discretionary capital expenditure, including our development programme, as part of the broader cash management plan; and
- trying to sell stock with a short shelf life at cost and, where that proved impossible, working with charitable institutions to avoid as much waste as possible.

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.

During the closure period we developed new Covid secure procedures which enabled us to reopen with safe environments whilst still providing a hospitable feel and great experiences for our guests. The people within our organisation typically responded to the challenges we faced with resilience and professionalism, which was key to our successful trading when we reopened the majority of our estate on 4 July.

New procedures were swiftly adopted by our teams and we were therefore able to take advantage of the boost to consumer confidence that the Government sponsored 'Eat Out to Help Out' scheme generated in August, which resulted in like-for-like sales[a] growth of 1.4% across the period when 94% of the estate was open. By maintaining the same strong focus on cost control that we had during lockdown, and with the Government's support, strong conversion to profit was achieved on this uplift in sales. By the end of the financial period we had reopened over 96% of our estate and our trading remained resilient into September, aided by good weather which benefitted the large proportion of sites with outdoor space. We continued to consistently outperform the market[b] following the reopening in July, reflecting the benefit of our diversified portfolio of brands and progress previously made under our Ignite programme of work. We have also seen online feedback scores improve to an average of 4.3 out of 5 following reopening despite the new protocols in place. At brand level, our premium suburban brands traded very well, even with the Covid secure protocols, with Miller & Carter and Premium Country Pubs leading the way. Conversely, our city centre wet led businesses, such as Nicholson's, struggled with the restrictions, exacerbated by many offices remaining empty.

However, Covid-19 case numbers began to increase again during September resulting in the introduction of further restrictions by the UK Government and the devolved nations. The increased measures, including a 10pm curfew, full table service and mandatory mask wearing in England, caused a decline in consumer confidence and a reduction in the frequency of guest visits. Trade was further negatively impacted by the introduction of the regional tier system whereby household mixing restrictions came into place in some areas and full closure of businesses in others. Meanwhile, a full lockdown was put in place in Wales and Germany, and regional closure of businesses in Scotland. As a result, like-for-like sales[a] began to deteriorate at the end of the period and worsened at the start of the new financial period as an increasing proportion of our estate fell into Tier 2 or Tier 3 areas in England or were subject to closure in other countries.

Subsequently, a second lockdown began in England on 5 November requiring the closure of all pubs and restaurants, for which we were able to draw on learnings from the first period of closure to ensure the process was as efficient as possible. Like-for-like sales[a] since the end of the financial period have declined by 26.5% reflecting the heightened restrictions. Total sales over the same period declined by 50.8% driven primarily by closure in England.

Throughout the pandemic we have worked hard to keep team members connected and informed. A new support portal was launched which includes regularly updated FAQs and central communication. Social media platforms have also been used to create inclusive groups across all of our teams, from sites and the Retail Support Centre in Birmingham, to share positive and engaging content and ideas. Through our established online learning platform, we were able to facilitate continued learning and development opportunities for our team members during closure periods. This platform was also used to quickly communicate new operational procedures to ensure that our teams were always updated 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 in supporting hospitality businesses during the pandemic. Technology allows the 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 brands in response to the pandemic. These sorts of technological interventions also help to enhance the economics of a service cycle and provide long-term guest and operational improvements.

Mitchells & Butlers has played a full role in the UK Hospitality led forums that have helped to devise the Hospitality Sector Protocols Document that the Government issued for the sector, and we continue to lobby Government directly to ensure that we, and the sector, get the support we need to protect jobs until we reopen and then as we rebuild. We have gratefully received the Government support which has been made available to date including the business rates holiday, which has benefitted retail, hospitality and leisure sectors and reduced VAT rates on certain supplies, which has had a sector specific benefit to food-led businesses. Our employees have benefitted from the Job Retention Scheme which has been of great value to our team providing some assurance during the initial closure period and enabling us to protect many roles. In spite of this support, we have not been immune to the impacts of the pandemic, and despite our best efforts to protect as many jobs as we can, we have had to make c.1,300 redundancies following the end of the financial period. The reduced levels of activity and closure of a small number of our sites meant that we could no longer support these roles.

The trading environment has presented unprecedented challenges for the industry, 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 premises had reopened for trading, suggesting that the long term impact of the pandemic on market supply is likely to be significant.

OUR STRATEGIC PRIORITIES

Despite the impacts of Covid-19, the fundamental strengths of our business remain. Our brand portfolio is well-known and diversified across consumer demographics and geographical locations, our estate is 82% freehold and we have an experienced and proven management team. We have made significant progress in recent years and we intend to continue to build on the momentum previously gained once trading restrictions have been lifted. 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 were enjoying 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 balanced business; instilling a more commercial culture and driving an innovation agenda. These priorities will keep the business focused as we recover.

Our Ignite programme of work, a series of internal business improvement initiatives, 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 are continuing to work on three or four major projects which we believe will yield significant opportunities in the future including auto-ordering, using a sophisticated forecasting tool to predict required food orders, and master data management, allowing us to gain insights from the data we own and to more easily enable our systems to interact with new technology. Aside from these, our immediate focus will be to prioritise the shorter-term initiatives which have a quick impact on the business, such as further rolling out mobile order-at-table and extending our delivery footprint.

We remain confident of our ability to deliver long-term and sustained efficiencies and business improvements through the Ignite programme and will be working to refine and roll out the new initiatives once the business is open and trading again.

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 the Covid-19 pandemic being, in the first instance, the primary determinant of our financial performance. We will continue to manage the business on an efficient and prudent basis, limiting the outflow of resources when we are closed and taking advantage of the ability to reopen our sites and trade as and when that occurs. Given this uncertainty, we continue to be unable to provide detailed guidance on expected forward financial performance, other than to say that we believe we are well placed to recover quickly, once restrictions are lifted.

The results are prepared under the going concern basis of accounting, although given the high level of uncertainty due to Covid-19 there is material uncertainty both against this assumption and the valuation of the Group property portfolio. Further details of each are provided in notes to the consolidated financial statements.

As at 25 November the Group had cash balances on hand of £125m in addition to access to committed undrawn unsecured facilities of £100m, giving a total liquidity of £225m. During the current period of shutdown action has again been taken to limit costs such that the ongoing monthly cash burn is approximately £35m to £40m before payment of debt service costs (representing interest and amortisation) of £50m per quarter.

We remain confident that with our strong estate of largely freehold assets, balanced portfolio of well-known brands and proven management team we are well positioned to regain the previous momentum built and to continue our trend of outperformance of the market as trading restrictions ease.

FINANCIAL REVIEW

On a statutory basis, loss before tax for the year was £(123)m (FY 2019 profit of £177m), on sales of £1,475m (FY 2019 £2,237m).

The Group Income Statement discloses adjusted profit and earnings per share information that exclude separately disclosed items to allow a better understanding of the trading of the Group. Separately disclosed items are those which are separately identified by virtue of their size or incidence.

	Statutory		Adjusted[a]	
	FY 2020 £m	FY 2019 £m	FY 2020 £m	FY 2019 £m
Revenue	1,475	2,237	1,475	2,237
Operating profit	8	297	99	317
(Loss)/profit before tax	(123)	177	(32)	197
(Loss)/Earnings per share	(26.2)p	33.5p	(6.3)p	37.2p
Operating margin	0.5%	13.3%	6.7%	14.2%

The financial performance across the year has been dominated by restrictions on trading in response to the Covid-19 pandemic, including a full national shutdown for several months in both the UK and Germany.

At the end of the period, the total estate comprised 1,738 sites in the UK and Germany of which 1,660 are directly managed.

Changes in accounting policies

This is the first full year financial results the Group has published since the adoption of IFRS 16 Leases. As a result of adopting the modified retrospective method with assets equal to liabilities, adjusted for any prepaid lease payments, lease incentives, expected dilapidations and lease premiums at transition, prior year comparatives have not been restated. A full impairment review of the right-of-use assets has been completed on transition to the new standard with the resulting impairment, net of any reversal of onerous lease provisioning, presented as an adjustment to opening reserves. Further details are included in note 12.

The main impact of the adoption of this new standard on our financial statements, which should accrue evenly across the year, is as follows: on the balance sheet, recognition of right-of-use assets at the start of the year of £466m and lease liabilities of £545m. During the 52 weeks ended 26 September 2020, the Group recognised £41m of depreciation charges and £17m of interest costs in respect of these leases.

Revenue

Total revenue of £1,475m was down 34.1%, principally reflecting periods of closure in relation to the Covid-19 pandemic.

Like-for-like sales[a] declined by 3.5% over the financial period, with sales growth of 0.9% before closure more than offset by the impact of reduced capacity, increased social distancing measures and consumer caution in response to Covid-19 following reopening. Like-for-like food sales[a] declined by

0.3%, performing better than drink sales which fell by 7.3%, reflecting both the success of the Eat Out to Help Out scheme and subsequent promotions and the fact that city centre pubs have been hardest hit by the trading and movement restrictions imposed. Like-for-like sales[a] growth benefitted from the reduced VAT rates on certain supplies applied by the UK Government from 15 July. Included within total revenue is £30m received from the Government in relation to the Eat Out to Help Out Scheme.

Like-for-like sales[a] growth:

	Weeks 1 – 24 FY 2020	**Weeks 25-40 FY2020**	**Weeks 41 – 44 July FY 2020**	**Weeks 45 – 48 August FY 2020**	**Weeks 49 – 52 September FY 2020**	**Weeks 1 – 52 FY 2020**
Food	1.3%	Closure	(29.2%)	20.1%	0.8%	0.3%
Drink	0.3%	Closure	(34.0%)	(16.7%)	(19.7%)	(7.3%)
Total	0.9%	Closure	(32.4%)	1.4%	(9.5%)	(3.5%)

Since the period end, including the latest closure period, like-for-like sales[a] have declined by 26.5% and total sales by 50.8%.

Separately disclosed items

Separately disclosed items are identified due to their nature or materiality to help the reader form a better view of overall and adjusted trading.

A £93m charge is recognised relating to valuation and impairment of properties, comprising a £43m impairment arising from the revaluation of freehold and long leasehold sites, a £10m impairment in relation to freehold and long leasehold tenant's furniture and fittings, a £7m impairment of short leasehold and unlicensed properties and a £33m impairment of right-of-use assets. The majority of these movements are a direct result of Covid-19 and the perceived trading environment present at the reporting date.

A £11m charge is recognised representing costs directly associated with the Covid-19 pandemic and primarily relates to the disposal of stock items at site and within distribution depots that were beyond useable dates as a result of the Government enforced closure of pubs on 20 March. This excessive wastage is not considered to be part of normal trading activity.

Income of £13m relates to a long-standing claim with HMRC, relating to VAT on gaming machines. HMRC paid the Group £13m in May 2010 but following an appeal by HMRC, the Group repaid this in 2014. During the 52 weeks ended 26 September 2020, HMRC agreed to settle this amount with the Group. The amount recognised is the settlement value including estimated interest.

A £10m deferred tax charge has been recognised following the substantive enactment of legislation on 17 March 2020, which increased the UK standard rate of corporation tax from 17% to 19% from 1 April 2020.

Operating profit and margins[a]

Adjusted operating profit[a] of £99m was 68.8% lower than last year due to restrictions, including the national closure of sites, in response to Covid-19. On closure of the estate, measures were taken to preserve profitability and all non-essential costs eliminated.

During the year, Government support was received in the form of a holiday on business rates (which will last through to April 2021) worth £47m, a reduction in the rate of VAT to 5% on non-alcoholic sales (to January 2021) and, in addition, the Group has secured additional debt facilities from banks under the Coronavirus Large Business Interruption Loan Scheme (CLBILs) backed by the UK Government. Employees also benefited from the Coronavirus Job Retention Scheme, with over 99% furloughed throughout much of the period of national shutdown in the summer which amounted to £165m.

Statutory operating margin of 0.5% was 12.8ppts lower than last year, materially impacted by the closure period and property valuation and impairment reviews. Adjusted operating margin[a] was 7.5ppts lower than last year at 6.7%.

Interest

Net finance costs of £127m for the full year were £14m higher than last year due to an additional £17m recognised in respect of interest on lease liabilities due to IFRS16 and £2m additional interest in relation to unsecured facilities partially offset by a £4m reduction in interest costs in relation to securitised debt.

The net pensions finance charge was £4m (FY 2019 £7m). The charge for next year is expected to be £3m.

Earnings per share

Basic (loss)/earnings per share, after the separately disclosed items described above, were (26.2)p (FY 2019 33.5p). Adjusted (loss)/earnings per share[a] were (6.3)p (FY 2019 37.2p). In both cases the reduction was due to the impacts of Covid-19 on profits. The weighted average number of shares in the period was 428m and the total number of shares issued at the balance sheet date was 429m.

Cash flow

	FY 2020 £m	FY 2019 £m
EBITDA before movements in the valuation of the property portfolio	255	418
Non-cash share-based payment and pension costs and other	5	24
Operating cash flow before movements in working capital and additional pension contributions	**260**	**442**
Working capital movement	20	9
Pension deficit contributions	(25)	(49)
Cash flow from operations	**255**	**402**
Capital expenditure	(108)	(152)
Net finance lease principal payments	(20)	-
Interest on lease liabilities	(8)	-
Net interest paid	(108)	(111)
Tax	(11)	(25)
Disposal proceeds	2	14
Issue and purchase of shares and other	(2)	(3)
Drawings under/(Repayment) of liquidity facility	9	(147)
Drawing of CLBILs	100	-
Drawings of revolving credit facilities	10	-
Transfers from cash deposits	-	120
Net cash flow before bond amortisation	**119**	**98**
Mandatory bond amortisation	(95)	(87)
Net cash flow	**24**	**11**

The business generated £255m of EBITDA before movements in the valuation of the property portfolio.

Pension deficit contributions were lower in the year due to an agreement reached with the schemes' Trustees to suspend contributions for six months to enable the business to conserve liquidity during the period of shutdown. Contributions have now been resumed.

Capital expenditure of £108m relates to investment projects, the majority of which were undertaken before the capital programme was suspended in light of the Covid-19 business closure.

Despite the challenges of closure in the year the business has managed to generate positive net cash flow of £24m, after having funded a scheduled reduction in bond debt of £95m.

Capital expenditure

Capital expenditure of £108m comprises £104m from the purchase of property, plant and equipment and £4m in relation to the purchase of intangible assets.

The investment programme was suspended in March as part of the cash management strategy in response to Covid-19, with only essential spend being undertaken since reopening.

	FY 2020		FY 2019	
	£m	**#**	**£m**	**#**
Maintenance and infrastructure	**38**		**60**	
Remodels – refurbishment	54	139	65	212
Remodels – expansionary	2	5	5	11
Conversions	13	23	11	17
Acquisitions – freehold	1	1	4	5
Acquisitions – leasehold	-	-	7	2
Total return generating capital expenditure	**70**	**168**	**92**	**247**
Total capital expenditure	**108**		**152**	

Property

In line with our property valuation policy a red book valuation of the freehold and long leasehold estate has been completed in conjunction with the independent property valuer, CBRE. In addition, the Group has undertaken an impairment review on short leasehold and unlicensed properties and fixtures and fittings.

The effects of the Covid-19 pandemic has disrupted activities across all real estate property markets, increasing uncertainties as to valuations which the Group's valuers, CBRE, need to take into consideration. As a consequence, CBRE has included in its valuation report of the Group's UK freehold and long leasehold properties wording to reflect that there is a "material uncertainty". This clause 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 also highlighted the importance of the valuation date (26 September 2020).

Pensions

The Group continues to make pension deficit payments as agreed as part of the triennial pensions valuation with the schemes' Trustees at 31 March 2019, which showed an actuarial deficit of £293m. It was agreed that the deficit would continue to be funded by cash contributions of £49m per annum indexed to 2023. During the year, the Group agreed with the Trustees that the contributions into the Mitchells & Butlers Pension Plan and the Mitchells & Butlers Executive Pension Plan would be suspended in respect of the monthly contributions for the six months to September 2020. Those contributions have been added onto the end of the agreed recovery plan so that those contributions will be payable in 2023. In 2024 an additional payment of £13m will be made into escrow, should such further funding be required at that time.

The court hearing in relation to the rate of inflation to be applied to pensions increases for certain sections of the membership in excess of the guaranteed minimum pensions is expected to be heard in mid 2021.

Net debt and facilities

Following the adoption of IFRS16, leases are now included in net debt. Net debt at the period end was £2,104m, including lease liabilities of £541m (FY 2019 not restated). Excluding lease liabilities net debt at the period end was £1,563m, approximately flat across the period (FY 2019 £1,564m).

On 12 June the Group announced revised financing arrangements that had been agreed with our main creditors to provide a platform of both additional liquidity and improved financial flexibility in order to meet the challenge presented by Covid-19. This is represented by £100m of CLBILs and revolving credit facilities of which £10m was drawn at the balance sheet date.

In addition, as part of the revised financing arrangements, certain amendments and waivers were agreed within the Group securitisation to provide stability and flexibility to the Group in order to manage the Secured Financing structure. These arrangements are summarised under going concern in note 1.

In securing these valuable amendments the Group has agreed not to pay an external dividend, undertake any share buy-backs or repurchase bond debt until the end of the financial year to September 2021, at the earliest.

Further details can be found at https://www.mbplc.com/infocentre/debtinformation/.

Significant Judgements

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions in the application of accounting polies. 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. Judgements and estimates for the period relate to;

- going concern assessment (note 1)
- separately disclosed items (note 3)
- property plant and equipment (note 8)
- leases (note 9)
- pensions (note 11)

The impact of Covid-19 on the trading environment and property market has resulted in areas of estimation uncertainty in relation to some of these judgements.

Going Concern

After considering the forecasts, sensitivities and mitigating actions available to management and having regard to the risks and uncertainties to which the Group is exposed (including the material uncertainty referred to above), the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, and operate within its borrowing facilities and covenants for a period of at least 12 months from the date of signing the financial statements. Accordingly, the financial statements continue to be prepared on the going concern basis.

Full details are included in note 1.

Director's responsibility statement

The 2020 Annual Report and Accounts which will be issued in December 2020, contains a responsibility statement in compliance with DTR 4.1.12 of the Listing Rules which sets out that as at the date of approval of the Annual Report on 25 November 2020, the Directors confirm to the best of their knowledge:

- the Group and unconsolidated Company financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and Company, and the undertakings included in the consolidation taken as a whole; and

- the performance review contained in the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Group and the undertakings including the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

This responsibility statement was approved by the Board of Directors on 25 November 2020 and is signed on its behalf by:

Tim Jones
Chief Financial Officer
25 November 2020

Definitions

a – The Directors use a number of alternative performance measures (APMs) that are considered critical to aid the understanding of the Group's performance. APMs are defined later in this announcement.

b – As measured by the Coffer Peach business tracker.

Group income statement

For the 52 weeks ended 26 September 2020

		2020 52 weeks			2019 52 weeks		
	Notes	Before separately disclosed items £m	Separately disclosed items[a] £m	Total £m	Before separately disclosed items £m	Separately disclosed items[a] £m	Total £m
Revenue	2	1,475	-	1,475	2,237	-	2,237
Operating costs before depreciation, amortisation and movements in the valuation of the property portfolio	3	(1,221)	2	(1,219)	(1,801)	(19)	(1,820)
Share in associates results		(1)	-	(1)	-	-	-
Net profit arising on property disposals		-	-	-	-	1	1
EBITDA[b] before movements in the valuation of the property portfolio		253	2	255	436	(18)	418
Depreciation, amortisation and movements in the valuation of the property portfolio	3	(154)	(93)	(247)	(119)	(2)	(121)
Operating profit		99	(91)	8	317	(20)	297
Finance costs	5	(128)	-	(128)	(114)	-	(114)
Finance income	5	1	-	1	1	-	1
Net pensions finance charge	5,11	(4)	-	(4)	(7)	-	(7)
(Loss)/profit before tax		(32)	(91)	(123)	197	(20)	177
Tax credit/(charge)	6	5	6	11	(38)	4	(34)
(Loss)/profit for the period		(27)	(85)	(112)	159	(16)	143
(Loss)/earnings per ordinary share							
Basic	7	(6.3)p		(26.2)p	37.2p		33.5p
Diluted	7	(6.3)p		(26.1)p	37.1p		33.3p

a. Separately disclosed items are explained and analysed in note 3.
b. Earnings before interest, tax, depreciation, amortisation and movements in the valuation of the property portfolio.

All results relate to continuing operations.

Group statement of comprehensive income

For the 52 weeks ended 26 September 2020

	Notes	2020 52 weeks £m	2019 52 weeks £m
(Loss)/profit for the period		(112)	143
Items that will not be reclassified subsequently to profit or loss:			
Unrealised (loss)/gain on revaluation of the property portfolio	8	(148)	84
Remeasurement of pension liability	11	3	15
Tax relating to items not reclassified		1	(18)
		(144)	81
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges:			
- Losses arising during the period		(43)	(81)
- Reclassification adjustments for items included in profit or loss		48	23
Tax relating to items that may be reclassified		5	10
		10	(48)
Other comprehensive (expense)/income after tax		(134)	33
Total comprehensive (expense)/income for the period		(246)	176

Group balance sheet

26 September 2020

	Notes	2020 £m	2019 £m
Assets			
Goodwill and other intangible assets		14	14
Property, plant and equipment	8	4,305	4,528
Lease premiums		-	1
Right-of-use assets[a]	9	402	-
Interests in associates		4	5
Finance lease receivables[a]		15	-
Deferred tax asset[a]		85	66
Derivative financial instruments		45	53
Total non-current assets		4,870	4,667
Inventories		22	26
Trade and other receivables[a]		41	63
Current tax asset		1	-
Finance lease receivables[a]		2	-
Cash and cash equivalents	10	173	133
Derivative financial instruments		-	3
Total current assets		239	225
Total assets		5,109	4,892
Liabilities			
Pension liabilities	11	(51)	(50)
Trade and other payables[a]		(314)	(327)
Current tax liabilities		-	(12)
Borrowings	10	(238)	(95)
Lease liabilities[a]	9	(58)	-
Derivative financial instruments		(40)	(36)
Total current liabilities		(701)	(520)
Pension liabilities	11	(142)	(165)
Borrowings	10	(1,542)	(1,657)
Lease liabilities[a]	9	(483)	-
Derivative financial instruments		(257)	(266)
Deferred tax liabilities		(302)	(301)
Provisions[a]		(5)	(36)
Total non-current liabilities		(2,731)	(2,425)
Total liabilities		(3,432)	(2,945)
Net assets		1,677	1,947
Equity			
Called up share capital		37	37
Share premium account		28	26
Capital redemption reserve		3	3
Revaluation reserve		1,117	1,267
Own shares held		(3)	(4)
Hedging reserve		(240)	(250)
Translation reserve		14	14
Retained earnings[a]		721	854
Total equity		1,677	1,947

a At the start of the period, the Group has adopted IFRS 16 which requires lease liabilities and corresponding right-of-use assets to be recognised on the balance sheet. The Group has adopted IFRS 16 using the modified retrospective approach and as a result, prior period comparatives have not been restated. See notes 1 and 12 for details of the transitional impact.

Group statement of changes in equity

For the 52 weeks ended 26 September 2020

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Own shares held £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
At 29 September 2018	37	26	3	1,197	(1)	(202)	14	695	1,769
Profit for the period	-	-	-	-	-	-	-	143	143
Other comprehensive income/(expense)	-	-	-	70	-	(48)	-	11	33
Total comprehensive income/(expense)	-	-	-	70	-	(48)	-	154	176
Purchase of own shares	-	-	-	-	(3)	-	-	-	(3)
Credit in respect of share-based payments	-	-	-	-	-	-	-	3	3
Tax on share-based payments	-	-	-	-	-	-	-	2	2
At 28 September 2019	37	26	3	1,267	(4)	(250)	14	854	1,947
IFRS 16 transition[a]	-	-	-	-	-	-	-	(24)	(24)
At 29 September 2019	37	26	3	1,267	(4)	(250)	14	830	1,923
(Loss)/profit for the period	-	-	-	-	-	-	-	(112)	(112)
Other comprehensive income/(expense)	-	-	-	(150)	-	10	-	6	(134)
Total comprehensive income/(expense)	-	-	-	(150)	-	10	-	(106)	(246)
Share capital issued	-	2	-	-	-	-	-	-	2
Purchase of own shares	-	-	-	-	(2)	-	-	-	(2)
Release of own shares	-	-	-	-	3	-	-	(3)	-
Credit in respect of share-based payments	-	-	-	-	-	-	-	2	2
Tax on share-based payments	-	-	-	-	-	-	-	(2)	(2)
At 26 September 2020	37	28	3	1,117	(3)	(240)	14	721	1,677

a At the start of the period, the Group has adopted IFRS 16 which requires lease liabilities and corresponding right-of-use assets to be recognised on the balance sheet. The Group has adopted IFRS 16 using the modified retrospective approach and as a result, prior period comparatives have not been restated. See notes 1 and 12 for details of the transitional impact.

Group cash flow statement
For the 52 weeks ended 26 September 2020

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

a At the start of the period, the Group has adopted IFRS 16 which requires lease liabilities and corresponding right-of-use assets to be recognised on the balance sheet. The Group has adopted IFRS 16 using the modified retrospective approach and as a result, prior period comparatives have not been restated. See notes 1 and 12 for details of the transitional impact.

Notes to the consolidated financial statements

1. Preparation of preliminary consolidated financial statements

General information
Mitchells & Butlers plc, along with its subsidiaries, (together 'the Group') is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and in accordance with the Companies Act 2006. While the financial information included in this release is based on the Group's consolidated financial statements and has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs), this announcement does not itself contain sufficient information to comply with IFRSs.

The preliminary financial statements include the results of Mitchells & Butlers plc and all its subsidiaries for the 52 week period ended 26 September 2020. The comparative period is for the 52 week period ended 28 September 2019. The respective balance sheets have been drawn up as at 26 September 2020 and 28 September 2019.

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

The Group's accounting policies have been applied consistently.

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 relevant governments in the UK and Germany in response to the outbreak of Covid-19.

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

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

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

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

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

Going concern (continued)
In order to secure such amendments and waivers, the Group gave certain undertakings in relation to its own financing arrangements, namely, to secure the £250m liquidity facilities referred to below, and an undertaking to provide funding into the securitisation of up to £100m in line with drawings on the Liquidity Facility.
In addition, the following was agreed with the Group's unsecured relationship banks:

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

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

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

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

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

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

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

1. Preparation of preliminary consolidated financial statements (continued)

Going concern (continued)

Reverse stress test (continued)

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. In the reverse stress test, management have assumed unmitigated costs to be £11m per annum.

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

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

Going concern statement

Notwithstanding the material uncertainty highlighted above, after due consideration the Directors have a reasonable expectation that the Company and the Group have sufficient resources to continue in operational existence for the period of at least 12 months from the date of approval of these financial statements. Accordingly, the financial statements continue to be prepared on the going concern basis.

Foreign currencies

The results of overseas operations have been translated into sterling at the weighted average euro rate of exchange for the period of £1 = €1.09 (2019 £1 = €1.13), where this is a reasonable approximation to the rate at the dates of the transactions. Euro and US dollar denominated assets and liabilities have been translated at the relevant rate of exchange at the balance sheet date of £1 = €1.10 (2019 £1 = €1.12) and £1 = $1.27 (2019 £1 = $1.23) respectively.

New and amended IFRS Standards that are effective for the current period

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and interpretations which have been adopted by the Group in these financial statements for the first time with the following impact.

IFRS 16 Leases

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

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

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

1. Preparation of preliminary consolidated financial statements (continued)

New and amended IFRS Standards that are effective for the current period (continued)

IFRS 16 Leases (continued)
The date of initial application of IFRS 16 for the Group is 29 September 2019. The impact of the adoption of IFRS 16 on the Group balance sheet, Group income statement and Group statement of changes in equity is shown in note 12.

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

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

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

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

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

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

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

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

1. Preparation of preliminary consolidated financial statements (continued)

New and amended IFRS Standards that are effective for the current period (continued)

IFRS 16 Leases (continued)
The Group as lessee (continued)
At the commencement date of property leases the Group determines the lease term to be the full term of the lease, assuming any option to break or extend the lease is unlikely to be exercised. Leases are regularly reviewed and will be revalued if it becomes likely that a break clause or option to extend the lease will be exercised. Judgement is also required in respect of property leases where the current lease term has expired but the Group remains in negotiation with the landlord for potential renewal. Where the Group believes renewal to be reasonably certain and the lease is protected by the Landlord Tenant Act, it will be treated as having been renewed at the date of termination of the previous lease term and on the same terms as the previous lease. Where renewal is not considered to be certain the leases are included with a lease term which reflects the anticipated notice period under relevant legislation. The lease will be revalued when it is renewed to take account of the new terms.

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

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

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

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

The impact of the adoption of IFRS 16 on the Group balance sheet, Group income statement and Group statement of changes in equity is shown in note 12.

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

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

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

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

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

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

1. Preparation of preliminary consolidated financial statements (continued)

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

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

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

Judgements and estimates for the period remain largely unchanged from prior period, other than the consideration of the impact of Covid-19 where relevant. In addition, there are new judgements and estimates within note 9 Leases as a result of the adoption of IFRS 16 and the impact of Covid-19.

Critical judgements are described in each section listed below:

- Note 3 Separately disclosed items
- Note 6 Taxation
- Note 8 Property, plant and equipment
- Note 9 Leases
- Note 11 Pensions

Key sources of estimation uncertainty are described in:

- Note 6 Taxation
- Note 8 Property, plant and equipment
- Note 9 Leases

2. Segmental analysis

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

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

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

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

a. Includes balances relating to intangibles, property, plant and equipment, right-of-use assets, finance lease receivables and non-current lease premiums.

3. Separately disclosed items

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

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

3. Separately disclosed items (continued)

The items identified in the current period are as follows:

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

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

b. Costs directly associated with the Covid-19 pandemic primarily relate to the disposal of stock items at site and within distribution depots that are beyond useable dates as a result of the Government enforced closure of pubs on 20 March 2020. This excessive wastage is not considered to be part of normal trading activity.

c. The income of £13m relates to a long-standing claim with HMRC, relating to VAT on gaming machines. HMRC first paid the Group £13m in May 2010 but following an appeal by HMRC, the Group repaid this in 2014. During the 52 weeks ended 26 September 2020, HMRC agreed to settle this amount with the Group. The amount recognised is the settlement value including estimated interest.

d. The impairment arising from the Group's revaluation of its freehold and long leasehold pub estate comprises an impairment charge, where the carrying values of the properties exceed their recoverable amount, net of a revaluation surplus that reverses past impairments. See note 8 for further details.

e. Impairment of freehold and long leasehold tenant's fixtures and fittings where their carrying values exceed their recoverable amounts. See note 8 for further details.

f. The impairment of short leasehold and unlicensed properties comprises an impairment charge, where their carrying values exceed their recoverable amount, net of an impairment reversal where carrying values have been increased to the recoverable amounts. See note 8 for further details.

g. Impairment of right-of-use assets where their carrying values exceed their recoverable amounts. See note 9 for further details.

h. During the prior period, a revaluation uplift, which reverses a previous impairment, was recognised on reclassification of property, plant and equipment to assets held for sale.

i. A deferred tax charge has been recognised in the current period following the substantive enactment of legislation on 17 March 2020, which increased the UK standard rate of corporation tax from 17% to 19% from 1 April 2020.

4. Government grants

Accounting policy
Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in the income statement on a systematic basis over the periods in which the Group recognises as expenses the related operating costs for which the grants are intended to compensate.

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

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

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

The impact of grants received on the income statement for the 52 weeks ended 26 September 2020 is as follows:

Government grant scheme	**Income statement line impact**	2020 52 weeks £m	2019 52 weeks £m
Eat Out to Help Out	Revenue	30	-
Coronavirus Job Retention Scheme	Operating costs before separately disclosed items	165	-
Total Government grants received		195	-

In addition to the grants received above, during the current period, the UK Government announced 100% rate relief for all pubs and restaurants for the business rates year 2020/2021. The impact in the current period is an estimated saving of £47m (2019 £nil).

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

5. Finance costs and income

	2020 52 weeks £m	2019 52 weeks £m
Finance costs		
Interest on securitised debt	(105)	(109)
Interest on other borrowings	(6)	(4)
Interest on lease liabilities	(17)	-
Unwinding of discount on provisions	-	(1)
Total finance costs	(128)	(114)
Finance income		
Interest receivable – cash	1	1
Net pensions finance charge (note 11)	(4)	(7)

6. Taxation

Critical accounting judgements

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

Key sources of estimation uncertainty

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

Taxation - Group income statement

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

6. Taxation (continued)

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

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

Taxation - other comprehensive income

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

	2020 52 weeks £m	2019 52 weeks £m
Tax relating to items recognised directly in equity		
Deferred tax:		
- Tax (charge)/credit related to share-based payments	(2)	2

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.

7. (Loss)/earnings per share

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

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

Adjusted (loss)/earnings per ordinary share amounts are presented before separately disclosed items (see note 3) in order to allow a better understanding of the adjusted trading performance of the Group.

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

a. Adjusted (loss)/profit and adjusted EPS are alternative performance measures (APMs) and are considered critical to aid understanding of the Group's performance. These measures are explained later in this announcement.

At 26 September 2020, 1,894,111 (2019 782,078) other share options were outstanding that could potentially dilute basic EPS in the future but were not included in the calculation of diluted EPS as they are anti-dilutive for the periods presented.

8. Property, plant and equipment

Accounting policies

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

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

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

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

Property, plant and equipment can be analysed as follows:

	2020 £m	2019 £m
At beginning of period	4,528	4,426
Additions	97	151
(Impairment)/revaluation	(208)	82
Disposals	(2)	(2)
Transfers to assets held for sale	-	(13)
Depreciation provided during the period	(110)	(116)
At end of period	4,305	4,528

Revaluation
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.

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

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

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

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

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

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

8. Property, plant and equipment (continued)

Critical accounting judgements

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

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

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

Impairment review of short leasehold and unlicensed property and tenant's fixtures and fittings
For the short leasehold properties and tenant's fixtures and fittings impairment review, judgement has been applied to determine the most appropriate forecast to use as a result of the impact of Covid-19 on site profitability and cash flows. Site level forecasts, including the allocation of directly attributable overhead costs, have been used that formed the basis of the overall Group forecast for FY 2021 that was in place at the balance sheet date. Management apply judgement when allocating overhead costs to site 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, Wales, Northern Ireland and Germany). The forecast assumed reduced sales throughout FY 2021, building up to pre Covid-19 levels of trade by the fourth quarter of FY 2021. In addition, the forecast also includes a reduction in VAT on non-alcohol sales to April 2021 and business rate relief to April 2021.

Key sources of estimation uncertainty

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

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

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

The carrying value of properties to which these estimates apply is £4,129m (2019 £4,343m).

8. Property, plant and equipment (continued)

Key sources of estimation uncertainty (continued)

Revaluation of freehold and long leasehold properties (continued)

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

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

Multiples
Valuation multiples are determined at an individual brand level. Movements in valuation multiples between financial periods are the result of changes in property market conditions. The average weighted multiple is 8.1 (2019 8.6). Over the last three financial periods, the weighted average brand multiple has moved by an average of 0.2. It is estimated that a 0.2 change in the multiple would generate an approximate £88m movement in valuation.

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

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

The carrying value of assets to which these estimates apply is £164m.

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

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

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

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

9. Leases

Right-of-use assets

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

	2020 £m
At beginning of period	-
Transition to IFRS 16 (see note 12)	466
Additions	10
Impairment	(33)
Disposals	(1)
Transfers to assets held for sale	-
Depreciation provided during the period	(41)
Foreign currency movements	1
At end of period	402

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%).

Critical accounting judgements

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

In the current period, judgement has been applied to determine the most appropriate forecast to use as a result of the impact of Covid-19 on site profitability. Site level forecasts, including the allocation of directly attributable overhead costs, have been used that formed the basis of the overall Group forecast for FY 2021 that was in place at the balance sheet date. Management apply judgement when allocating overhead costs to site 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, Wales, Northern Ireland and Germany). The forecast assumed reduced sales throughout FY 2021, building up to pre Covid-19 levels of trade by the fourth quarter of FY 2021. In addition, the forecast also includes a reduction in VAT on non-alcohol sales to April 2021 and business rate relief to April 2021.

9. Leases (continued)

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

The carrying value of assets to which these estimates apply is £402m.

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

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

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

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

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

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

10. Borrowings and net debt

Borrowings

Borrowings can be analysed as follows:

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

a The term loan is a drawing under a facility that is backed by the Coronavirus Large Business Interruption Loan Scheme. Further details provided below.

b. The overdraft is within a cash pooling arrangement. In the cash flow statement, cash and cash equivalents are presented net of this overdraft.

Liquidity facility

Under the terms of the securitisation, the Group holds a liquidity facility of £295m provided by two counterparties. The facility, which is not available for any other purpose, is sized to cover 18 months debt service.

During the current period, as a result of the Covid-19 pandemic, the Group obtained a waiver to facilitate drawings of up to £100m in total under the Liquidity facility providing the Group with additional facilities in order to meet payments of principal and interest, provided such drawings are repaid in full by 15 March 2021. Amounts of £47m have been drawn during the period, of which £38m have been repaid. The amount drawn at 26 September 2020 is £9m (2019 £nil). Further details of the covenant waivers and amendments obtained are provided within the going concern review in note 1.

Unsecured revolving credit facilities

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

Term loan backed by the Coronavirus Large Business Interruption Loan Scheme

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

10. Borrowings and net debt (continued)

Net debt

Net debt can be analysed as follows:

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

a. Cash and cash equivalents, in the cash flow statement, are presented net of an overdraft within a cash pooling arrangement, to which the Group has a legal right of offset.

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

Movement in net debt excluding leases

	2020 52 weeks £m	2019 52 weeks £m
Net increase in cash and cash equivalents	24	11
Add back cash flows in respect of other components of net debt:		
Transfers from other cash deposits	-	(120)
Repayment of principal in respect of securitised debt	95	87
Drawdown of term loan	(100)	-
Drawdown on unsecured revolving credit facilities	(10)	-
(Drawdown)/repayment of liquidity facility	(9)	147
Decrease in net debt arising from cash flows	-	125
Movement in capitalised debt issue costs net of accrued interest	-	(1)
Decrease in net debt excluding leases	-	124
Opening net debt excluding leases	(1,564)	(1,688)
Foreign exchange movements on cash	1	-
Closing net debt excluding leases	(1,563)	(1,564)

Movement in lease liabilities	2020 52 weeks £m
Opening lease liabilities	-
Transition to IFRS 16 (see note 12)	(545)
Additions	(10)
Interest charged during the period	(17)
Repayment of principal and interest	30
Disposals	2
Foreign currency movements	(1)

Closing lease liabilities	(541)

11. Pensions

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

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

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

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

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

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

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

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

11. Pensions (continued)

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

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

The movement in the actuarial surplus in the period is as follows:

	2020 £m	2019 £m
Actuarial surplus at beginning of period	296	336
Interest income	5	10
Return on scheme assets and effects of changes in assumptions	(22)	(77)
Additional employer contributions	25	49
Past service cost	-	(19)
Administration costs	(2)	(3)
At end of period	302	296

12. Adoption of IFRS 16 leases

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

Impact of IFRS 16 on the financial statements

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

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

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

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

12. Adoption of IFRS 16 leases (continued)

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

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

Balance sheet

The impact on the opening balance sheet is summarised below;

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

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

Income statement

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

Cash flow statement

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

13. Post balance sheet events

UK Government Covid-19 announcements
On 31 October 2020, the UK Government announced a second national lockdown to be effective in England from 5 November 2020 to 2 December 2020. This resulted in mandatory closure of all of the Group's trading sites in England on 5 November 2020. The impact of this has been included in the going concern assessment 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 8)

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

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

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

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

Leases (note 9)

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

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

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

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

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

14. Financial statements

The preliminary statement of results was approved by the Board of Directors on 25 November 2020. It does not constitute the Group's statutory consolidated financial statements for the 52 weeks ended 26 September 2020 or for the 52 weeks ended 28 September 2019. The financial information is derived from the statutory consolidated financial statements of the Group for the 52 weeks ended 26 September 2020.

Statutory accounts for 2019 have been delivered to the Registrar of Companies and those for 2020 will be delivered following the Company's Annual General Meeting.

14. Financial statements (continued)

The financial information for the 52 weeks ended 28 September 2019 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditors reported on those accounts: their report was unqualified and did not draw attention to any matters by way of emphasis of matter and did not contain a statement under s498(2) or (3) of the Companies Act 2006.

The statutory financial statements for the 52 weeks ended 26 September 2020 will be filed with the Registrar of Companies following the 2020 Annual General Meeting. The report of the auditor was unqualified and did not contain a statement under s498(2) or (3) of the Companies Act 2006, but did include a section highlighting a material uncertainty that may cast significant doubt on the Group and Company's ability to continue as a going concern. Further detail is provided with the Outlook assessment and notes to these preliminary statement of results.

Alternative Performance Measures

The performance of the Group is assessed using a number of Alternative Performance Measures (APMs).

The Group's results are presented both before and after separately disclosed items. Adjusted profitability measures are presented excluding separately disclosed items as we believe this provides both management and investors with useful additional information about the Group's performance and supports a more effective comparison of the Group's trading performance from one period to the next. Adjusted profitability measures are reconciled to unadjusted IFRS results on the face of the income statement with details of separately disclosed items provided in note 3.

The Group's results are also described using other measures that are not defined under IFRS and are therefore considered to be APMs. These APMs are used by management to monitor business performance against both shorter term budgets and forecasts but also against the Group's longer-term strategic plans.

APMs used to explain and monitor Group performance include:

APM	**Definition**	**Source**
EBITDA	Earnings before interest, tax, depreciation and amortisation.	Group income statement
Adjusted EBITDA	Annualised EBITDA on a 52 week basis before separately disclosed items is used to calculate net debt to EBITDA.	Group income statement
Operating profit	Earnings before interest and tax.	Group income statement
Adjusted operating profit	Operating profit before separately disclosed items.	Group income statement
Like-for-like sales growth	Like-for-like sales growth reflects the sales performance against the comparable period in the prior year of UK managed pubs, bars and restaurants that were trading in the two periods being compared, unless marketed for disposal.	Group income statement
Adjusted earnings per share (EPS)	Earnings per share using profit before separately disclosed items.	Note 7
Net debt : Adjusted EBITDA	The multiple of net debt including lease liabilities, as per the balance sheet compared against 52 week EBITDA before separately disclosed items which is a widely used leverage measure in the industry.	Note 10 Group income statement
Free cash flow	This measure is no longer used as an APM, see explanation below.	Cash flow statement
Return on capital	Return generating capital includes investments made in new sites and investment in existing assets that materially changes the guest offer. Return on investment is measured by incremental site EBITDA following investment expressed as a percentage of return generating capital. Return on investment is measured for four years following investment. Measurement commences three periods following the opening of the site.	

A. Like-for-like sales

The sales this year compared to the sales in the previous year of all UK managed sites that were trading in the two periods being compared, expressed as a percentage. This widely used industry measure provides better insight into the trading performance than total revenue which is impacted by acquisitions and disposals. As like-for-like sales can only be measured when sites are trading the measure excludes periods of closure in response to Covid-19.

	Source	**2020 52 weeks £m**	2019 52 weeks £m	Year-on-year %
Reported revenue	Income statement	**1,475**	2,237	**(34.1%)**
Less non like-for-like sales and income		**(172)**	(887)	**80.6%**
Like-for-like sales		**1,303**	1,350	**(3.5%)**

Drink and food sales growth

	Source	**2020 52 weeks £m**	2019 52 weeks £m	Year-on-year %
Drink like-for-like sales		**573**	618	**(7.3%)**
Food like-for-like sales		**699**	697	**0.3%**
Other like-for-like sales		**31**	35	**(11.4%)**
Total like-for-like sales		**1,303**	1,350	**(3.5%)**

B. Adjusted Operating Profit

Operating profit before separately disclosed items as set out in the Group Income Statement. Separately disclosed items are those which are separately identified by virtue of their size or incidence (see note 3). Excluding these items allows a better understanding of the trading of the Group.

	Source	**2020 52 weeks £m**	2019 52 weeks £m	Year-on-year %
Operating profit	Income statement	**8**	297	**(97.3%)**
Separately disclosed items	Note 3	**91**	20	
Adjusted operating profit		**99**	317	**(68.8%)**
Reported revenue	Income statement	**1,475**	2,237	**(34.1%)**
Adjusted operating margin		**6.7%**	14.2%	**(7.5ppts)**

C. Adjusted Earnings per Share

Earnings per share using profit before separately disclosed items. Separately disclosed items are those which are separately identified by virtue of their size or incidence. Excluding these items allows a better understanding of the trading of the Group.

	Source	**2020 52 weeks £m**	2019 52 weeks £m	Year-on-year %
(Loss)/profit for the period	Income statement	**(112)**	143	**(178.3%)**
Add back separately disclosed items	Income statement	**85**	16	
Adjusted (loss)/profit		**(27)**	159	**(117.0%)**
Weighted average number of shares	Note 7	**428**	427	**0.2%**
Adjusted (loss)/earnings per share		**(6.3)p**	37.2p	**(116.9%)**

D. Net Debt: Adjusted EBITDA

The multiple of net debt as per the balance sheet compared against 52 week EBITDA before separately disclosed items which is a widely used leverage measure in the industry. From FY 2020 leases are included in net debt following adoption of IFRS16. Adjusted EBITDA is used for this measure to prevent distortions in performance resulting from separately disclosed items.

Due to the closure period we do not have a representative 52 week EBITDA measure to calculate this metric and therefore it has not been used in these financial statements.

E. Free Cash Flow

Free cash flow excludes the cash movement on unsecured revolving credit facilities and was previously presented to allow understanding of the cash movements excluding short term debt. This measure is no longer used.

F. Return on capital

Return generating capital includes investments made in new sites and investment in existing assets that materially changes the guest offer. Return on investment is measured by incremental site EBITDA following investment expressed as a percentage of return generating capital. Return on investment is measured for four years following investment. Measurement of return commences three periods following the opening of the site.

Return on expansionary capital

	Source	2019 FY16-19 £m	2020 FY17-19 £m	2020 FY20 £m	**2020 Total £m**
Maintenance and infrastructure		265	183	38	**221**
Remodel - refurbishment		201	170	54	**224**
Non-expansionary capital		466	353	92	**445**
Remodel expansionary		39	26	2	**28**
Conversions and acquisitions*		141	99	12	**111**
Expansionary capital for return calculation		180	125	**14**	**139**
Expansionary capital open < 3 periods pre year end		14	14	2	**16**
Total capital	Cash flow	660	492	108	**600**
Adjusted EBITDA	Income statement	1,711	1,279	253	**1,532**
Non-incremental EBITDA		(1,692)	(1,269)	(255)	**(1,524)**
Incremental EBITDA		19	10	(2)	**8**
Return on expansionary capital		11%	8%	(11%)	**6%**

*Conversion and acquisition capital is net of capex incurred for projects which have been open for less than 3 periods pre year end

Return on remodel capital

	Source	FY20 £m
Capital investment	Cash flow	108
Non-remodel capital investment		(54)
Remodel - refurbishment		54
Adjusted EBITDA	Income statement	253
Non-incremental EBITDA		(272)
Incremental EBITDA		(19)
ROI		(35%)