Mitchells & Butlers plc Annual Report and Accounts 2020

Who are we?

We run many of the UK's most beautiful and iconic pubs. In fact, we are one of the leading restaurant and pub companies in the UK with over 1,650 businesses.

Our scale is impressive. Since 1898, Mitchells & Butlers has been at the forefront of UK drinking and eating out. Last year, uninterrupted by closure, we served 120 million meals, as well as some 380 million drinks. We employ over 42,500* people in pubs, bars and restaurants that are located across the length and breadth of the UK, with over 82% of the UK population within five miles of one of our sites.

Our strong 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, we operate Innkeeper's Lodge hotels in the UK and Alex restaurants and bars in Germany.

In FY 2020, our guests, employees and communities have needed our support during a period of huge insecurity driven by the global pandemic. Creating a safe environment for our guests and team members to enjoy has been the primary focus since reopening in July following the first period of enforced closure. As we continue to navigate the challenging and changing environment we will remain focused on our three priority areas of building a more balanced business, instilling a more commercial culture, and driving an innovation agenda, whilst pursuing our purpose of being the host of life's memorable moments, bringing people and communities together through great experiences.

At the time of issue of this Annual Report, significant restrictions have again been imposed. Our approach in these latest circumstances will be the same as we took during FY 2020.

* as at 26 September 2020.

15
Brands and formats operated across 1,660 sites

Miller & Carter
118 sites

Alex
44 sites

Nicholson's
79 sites

All Bar One
54 sites

O'Neill's
41 sites

Browns
24 sites

Premium Country Pubs
126 sites

Castle
108 sites

Stonehouse
95 sites

Ember Inns
148 sites

Suburban
242 sites

Harvester
172 sites

Toby Carvery
154 sites

High Street
73 sites

Vintage Inns
182 sites

UK REVENUE BY REGION (FY 2020)

% of sales		
1	Scotland	5%
2	North West	10%
3	North East	3%
4	Yorkshire and Humberside	8%
5	West Midlands	15%
6	East Midlands	5%
7	Wales	3%
8	East of England	8%
9	South West	7%
10	South East (excluding London)	15%
11	London	21%

82%

of the UK population live within five miles of an M&B site

42,500

Employees as at 26 September 2020

57,000

Meals provided from M&B surplus ingredients via FareShare scheme

82%

Freehold properties

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FINANCIAL HIGHLIGHTS

£1,475m
Revenue

£(123)m
Loss before tax*

£99m
Adjusted operating profit**

(6.3)p
Adjusted loss per share**

* Includes separately disclosed items.

** The Directors use a number of alternative performance measures (APMs) that are considered critical to aid understanding of the Group's performance. Key measures are explained on pages 161 and 162 of this report.

Financial review
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"At Mitchells & Butlers, our purpose is to be the host of life's memorable moments, bringing people and communities together through great experiences."

Our purpose has clearly been tested this year – never before in our 122-year history has the business had to close its entire estate. Our guests, people and communities have needed our support during this unsettling time, both professionally and personally, and we have endeavoured to provide that as best as possible whilst navigating the fast-changing environment we have been operating in. We have welcomed the Government support which has been available and continue to participate actively with UK Hospitality so that we can continue to support as many jobs in the industry as possible.

At the time of writing this report we continue to contend with further highly challenging trading conditions and expect this to continue for some time to come. Our hope is that the public's love of socialising with friends in a pub or restaurant will remain strong and, as it's done countless times before, the industry will bounce back. The next few pages show some of the things we have done over the last few months to protect and support our guests, people and communities.

PHIL URBAN
Chief Executive

Keeping Mitchells & Butlers **united**

EXTRACTS FROM PHIL URBAN'S REGULAR EMAILS TO STAFF:

"The first thing I would like to say is that adversity often brings out the best in people, and I have to say how impressed I have been with how the whole M&B team has reacted and stepped up at this awful time. The overwhelming affection for this great Company of ours, and the desire to see it come through this period, is almost palpable, and I can only give my heartfelt thanks to everyone for the professionalism and support that has been demonstrated… it is very humbling."

Phil Urban, CEO
15 April 2020

"Reopening felt like a big relief, and despite the media hype, Saturday wasn't quite the manic day that was feared. A big thank-you to all of our teams who opened their doors, and who had to get to grips with the new ways of working, at the same time as I'm sure feeling a little anxious themselves. Judging by the customer feedback that we received, once again M&B rose to the challenge."

Phil Urban, CEO
10 July 2020

It goes without saying that 2020 has been a highly challenging period for everyone including those associated with Mitchells & Butlers. The initial national lockdown starting in March was the first time in its 122-year history that the Company had been required to close its entire estate of pubs in order to safeguard employees and customers against the threat of Covid-19.

Our aim in March was to maintain links with our employees to help to support their wellbeing, and to ensure that once our businesses reopened they were fully prepared to deliver great experiences for our guests. We achieved this through a focus on communication, welfare and training.

When the UK Government instructed us to close the Group's licensed premises in late March, our UK trading sites were closed immediately and, after a few days of operating with very few members of staff to ensure a clean close down and transition to remote working, the Company's Retail Support Centre and other central support offices also closed down. With all but 150 of our employees furloughed from the time of closure, one of our main concerns was to ensure the financial welfare of our people. We therefore topped up the pay of all those paid above the furlough scheme cap to 80% of normal pay. Taking account of the same arrangements, the pay of the leadership was reduced by 30% and the Executive Committee's and the Board's pay was reduced by 40%.

Throughout the first period of closure, all employees were kept up to date on key issues, both relating to themselves personally and the business. A structured communications plan was put in place involving multiple channels, including social media, direct communication, and regular bi-weekly frank and thoughtful updates from Phil Urban, our Chief Executive, extracts of which can be seen on the facing page. A particularly effective communication channel was the Facebook group, M&B Together, which was created very soon after closure. This group focused on the wellbeing of our employees by promoting a sense of community and bringing together employees from all brands and functions.

During this initial period of lockdown we were keen to ensure that our team members could remain connected to the business and, where desired, could work on their personal development. Through our digital learning hub, team members were able to continue to develop the areas identified in their personal development plans by accessing a range of online resources curated to support key skills by job role and Company behaviours. Apprentices were also able to continue their pathways throughout lockdown via a remote learning model. As the lifting of the initial lockdown approached, our digital design and training teams were key enablers in allowing us to create a comprehensive in-house refreshable return-to-work training package to welcome our teams back to the business and ensure that they were able to keep themselves and our guests safe.

The period from September onwards has presented us with further challenges, including the 10pm curfew, local lockdowns, the tiering system, and, most significantly, a further national lockdown in November in England, where the vast majority of our businesses are situated, involving the closure of all of our businesses for at least four weeks. This has unfortunately, inevitably resulted in redundancies and reductions in working hours. We see no end to this disruption in the medium term but remain focused on supporting the welfare of our people through this difficult time.

Safeguarding our customers, employees and communities

On 16 March 2020 the Government advised the public not to attend busy places, including pubs and restaurants, in order to limit the spread of the virus. Then, on 20 March, the Government announced a directive to close all pubs and restaurants with immediate effect as measures to slow the spread of the virus increased.

On 25 June the Government gave permission for pubs and restaurants in England, where the vast majority of our businesses are located, to reopen on 4 July with the distancing guidelines reduced from two metres to 'one metre plus'.

The potential to resume trading had not come as a surprise and a team of operators and health and safety experts had been formulating a reopening plan for a number of weeks in conjunction with our trade body, UK Hospitality, and the Government. We did not, however, know the exact date and restrictions that would be applied until 25 June. We therefore had nine days to plan for the reopening of our businesses whilst ensuring that we did so taking the utmost care to ensure that all our preparations safeguarded our guests and colleagues. A specific un-furloughing team was pulled together, tasked with ensuring the businesses were ready for reopening and investment was made in items to signpost and enforce Covid-19 specific social distancing and in the relevant hygiene materials.

The business needed to be agile and adapt very quickly to a new and ever-changing landscape. Prior to reopening the business, a suite of mitigation measures was created and deployed including operational risk assessments, a Covid-19 reopening policy, and a Covid-19 training module which every member of the frontline teams completed prior to restarting in their businesses. We also utilised our internal safety technicians to provide local training and assurance that the risk mitigation measures had been adopted and implemented. The extremely low number of Covid-19 outbreaks and interventions through local environmental health officers are a testament to the work that our operations and safety teams have committed to this area. It is also relevant that on multiple occasions, the public health authorities have commended Mitchells & Butlers for its safety protocols, training regime and the speed and the manner in which it has responded to changing circumstances.

A further national lockdown in England, where over 90% of our businesses are located, resulting in the closure of all our businesses for a period of at least four weeks, was announced on 30 October and we continue to monitor the environment and adjust the processes and procedures as the positions of the home nations' Governments change. At every point, the safety of our guests and staff will remain our primary focus.

"On multiple occasions, the public health authorities have commended Mitchells & Butlers for its safety protocols, training regime and the speed and the manner in which it has responded to changing circumstances."

SOME RECENT CUSTOMER FEEDBACK:

"Great food! Lovely atmosphere and has really good social distancing measures in place. Definitely recommend."

Customer feedback on Harvester, Eastleigh 27 October 2020

"Absolutely love this place! There was a lovely warm welcome at the door... The Covid-19 regulations in place are great, made everyone feel safe and everything was spotless."

Customer feedback on Fish and Eels, Hoddesdon 27 October 2020

Reducing waste and supporting our communities

In last year's report we announced our partnership with FareShare to redistribute surplus food to charities and community groups. This was as part of a concerted focus on reducing our food waste, whether through menu re-design, pack size optimisation, staff training or charitable partnerships.

FareShare is the UK's largest charity fighting hunger and food waste, providing enough food to create almost a million meals for vulnerable people every week. FareShare redistributes perfectly good-to-eat surplus food through a network of 11,000 frontline organisations, across the UK. Through their 24 regional centres they work with groups such as drop-in services, lunch clubs for elderly people, breakfast clubs for disadvantaged children, homeless hostels, and domestic violence refuges to help them to provide nutritious meals alongside the lifechanging support services they offer.

Our plan, in November 2019, was to work with FareShare to redistribute food items and ingredients that were surplus to requirements as a result of factors such as the weather, menu revisions and changes in consumer taste. In the past we have not had a mechanism to redistribute these items before they went out of date. This process has now been put in place.

The unintended consequence of the initial period of closure of our businesses due to the global pandemic in March was a rapid acceleration of the partnership as we had far higher levels of redistributable food that needed to be removed from our supply chain to avoid it going to waste. With almost a fifth of UK households with children going hungry during the lockdown, this aligned with an urgent need to support our communities.

We therefore provided over 24 tonnes of surplus products to FareShare during the period, equating to over 57,000 meals for people in need.

Our intention is to continue to work with FareShare in the future to reduce both hunger and food waste in the UK.

Putting this effort into context, Mitchells & Butlers has helped:

614
frontline charities and community groups in the UK. Of which:

145
were community centres and cafés in deprived areas

103
were food banks and drop-in services for families and people on low incomes

106
were school breakfast clubs, after school clubs and youth clubs

163
were lunch clubs and day centres for vulnerable adults and older people

97
were hostels and supported housing for people who are homeless

One of the charities helped by us was **Rackets Cubed**, a London-based charity that works directly with local schools across Manchester, Birmingham, Leeds, Hull, Nottingham and London, to provide after-school activities for vulnerable young children.

For the past four years they have helped around 400 children in areas of high disadvantage every week. Many of the children have safeguarding risks and experience poor mental and physical health, threatening family relationships and increasing the risk of poverty. During the lockdown, ensuring they had sufficient food was an additional challenge.

In partnership with FareShare, Rackets Cubed created The Community Box: a weekly delivery that contains healthy foods, personal hygiene products, activities, and educational books. It is a complete box, with all the essentials to keep children going so that families do not need to worry.

During the first week of The Community Box, the charity managed to help 40 families. After just three weeks, they were sending this box to more than 250 families in need.

Michael Hill, the Founder and Chairman of Rackets Cubed, commented that:

"FareShare has been amazing, and we are going to shout that out loud. The food supplied has been a massive help. Although it is not the complete solution, it gives them 60% of what they need for their school."

Our top priority remains the safety of our team members and guests

This year has been dominated by the extreme challenges the Covid-19 pandemic has brought to our communities and our business. We are experiencing extraordinary events, such as nationwide lockdowns including the closure of pubs and restaurants across the UK, the like of which have never been seen before in our trading history.

BOB IVELL
Chairman

"The unity of the organisation has been instrumental during these difficult times, and is thanks to the energy and enthusiasm of our people who rise to the challenge."

Throughout all of this, our foremost priority has been the safety of our team members and of our guests, and the organisation can be proud of the way in which it has handled these unforeseen events. At the time of writing, further restrictions are in place or being imposed. The challenge remains very much with us and we continue to operate in an environment where there are ongoing uncertainties for the whole of the hospitality sector.

Our well-established strong corporate governance procedures enabled the organisation to react quickly to the Government guidance and the risk the pandemic posed to the organisation. A structured approach to Board and Executive decision-making ensured that action could be taken swiftly across the Company in response to the changing situation. Further detail on these revised governance arrangements can be found in the corporate governance statement on page 59.

The disruption caused this year has clearly stifled the progress we had been making over recent years, with the focus shifting to the efficient closure of businesses, securing as many jobs as possible through closure and safe reopening often all at short notice. Our attention going forward will be on rebuilding trade whilst managing the trading restrictions imposed and maintaining safe and enjoyable experiences for guests in an environment which continues to be challenging and uncertain.

The unity of the organisation has been instrumental during these difficult times, and is thanks to the energy and enthusiasm of our people who rise to the challenge. I would like to take this opportunity to thank them for their continued passion, dedication and hard work.

OUR PURPOSE

During this financial period our purpose to be the host of life's memorable moments, bringing people and communities together through great experiences, has been more important than ever. We are proud of our position and role in the communities we serve and exist to provide a meeting place, in the heart of the community, where people of all backgrounds can get together and socialise. Although we have had to adapt the ways in which we do this to ensure compliance with Government restrictions and the safety of our guests and team members, this underlying commitment remains at the core of our organisation. We were delighted to reopen our doors in July after the first national lockdown and to offer a safe and familiar environment for our guests to enjoy and our people to work in, and this purpose will remain our focus as we tackle further reopenings and as we move forward in this continuing uncertain operational environment.

In this report we bring to life how we make our purpose live in the business, to the benefit of all stakeholders, through a series of case studies.

Chairman's introduction to Governance
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OUR CULTURE

Our people are our greatest asset, and this has never been more evident than in the last year. The pandemic is clearly a highly challenging time for all of us both professionally and personally. However, our people have demonstrated the positive team culture which exists within the organisation. During the period of closure from March I saw first-hand the great team spirit through our virtual platforms, sharing news of positivity and creating innovative projects such as a recipe book generating charitable donations. When asked to return to work, our people showed enthusiasm and energy to face the challenges ahead of us and we thank them for their continued hard work.

There has been a sense of unity throughout the organisation despite the distance put between teams and individuals, with everyone pulling towards the clear collective goal of navigating through the challenges ahead. The Board and the Executive team, who have a lead role in shaping the culture of the organisation, have led by example, making swift decisions and communicating them with clarity and openness. Although the environment remains uncertain, we will continue to endeavour to support our people, with health, wellbeing and financial security the most important aspects of that support.

OUR VALUES

The values we hold ourselves accountable to across the business are Passion, Respect, Innovation, Drive and Engagement. We believe that these foster the culture and environment needed to enable our people to work collectively, and in union with our stakeholders, to support our purpose. Throughout the challenges faced by the business in the period, our team have demonstrated these values and enabled the organisation to make the necessary changes to continue to adapt to evolving needs in response to the Covid-19 pandemic.

OUR BOARD

We have not made any Board changes during the period.

The impact of Covid-19 has presented the Board with significant challenges in the period. The skills and attributes of our Board members have ensured that the Board has been able to make critical decisions at pace with the long-term interest of stakeholders at the fore. The stewardship of the Board has been instrumental in ensuring the financial wellbeing of the Company whilst maintaining the interests of employees, relationships with suppliers and the reputation of the organisation. The Board was actively involved in managing, monitoring and supervising the business of the Group in these extraordinary circumstances including providing stability which allowed the Company to navigate through the pandemic. The Board's focus will continue to be on the long-term success of the Company for all our stakeholders.

BOB IVELL
Chairman
Mitchells & Butlers plc

This financial period has been dominated by the impact Covid-19 has had on the organisation and the wider industry.

PHIL URBAN
Chief Executive

BUSINESS REVIEW

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 benefited 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] 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.

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 are therefore measured to 31 October, the last full week before closure of the majority of our estate, and have declined by 26.2%.

> *"The welfare and mental health of our team has been a primary concern and we have been encouraged by the way the business has pulled together at this difficult time."*

> *"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."*

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 by 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 the 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 benefited 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 benefited 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 AlixPartners 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 the 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.

PHIL URBAN
Chief Executive
Mitchells & Butlers plc

a. The Directors use a number of alternative performance measures (APMs) that are considered critical to aid the understanding of the Group's performance. Key measures are explained on pages 161 and 162 of this report.
b. As measured by the Coffer Peach business tracker.

The external environment

During the period, the impacts of the Covid-19 pandemic have dominated the sector. On 20 March, the Government enforced closure of all non-essential businesses to prevent the spread of the virus.

During the initial lockdown closure period, which lasted until 4 July, Government support was made available through the furlough scheme and business rates holiday and thereafter through reduced VAT rates, the Eat Out to Help Out scheme and the Coronavirus Large Business Interruption Loan Scheme. Despite this Government support, not all businesses were able to weather the prolonged period of closure with continued cash demands. A number of companies entered into CVAs and closure programmes and by the end of October the AlixPartners CGA Market Recovery Monitor (see graph on facing page) showed that only 69.9% of total licensed premises had reopened for trading. The report shows that restaurants and independent businesses have opened at a slower rate than pubs, and that bars have been the worst affected.

Since the end of the financial period further restrictions have been put in place, beginning with the tiered regional system in October and followed by the second national lockdown in England from 5 November as case numbers continued to rise. Similar restrictions were implemented in Scotland, Wales, Northern Ireland and Germany. These restrictions continue to be under constant review and subject to adaptation resulting in an uncertain trading environment, and the extent of the long-term impact on supply in the market is not yet clear.

Demand has also been impacted by Covid-19 with curfews, group size restrictions and consumer anxiety impacting the number and frequency of guests. The Eat Out to Help Out scheme helped to boost demand in August when like-for-like sales across the sector were flat to last year demonstrating that consumers' desire to eat and drink out remained resilient in the right conditions. Despite this, consumer confidence remains fragile and subject to changing macro conditions.

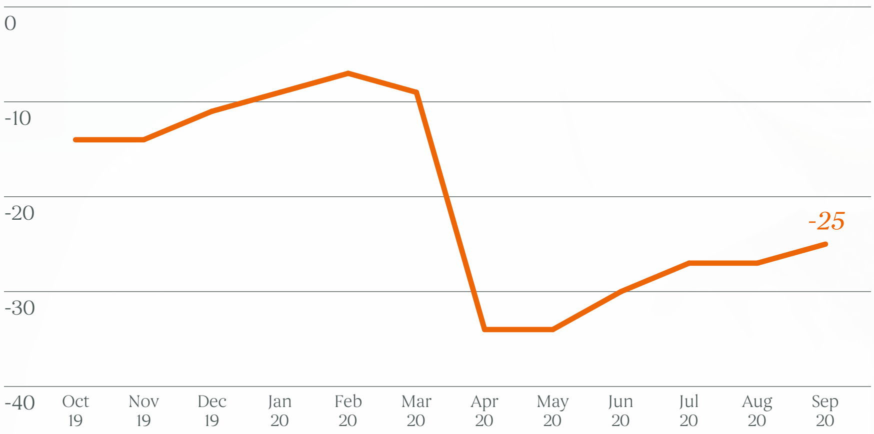
In the longer term, affinity for pubs and restaurants remains and, as ever, people remain social beings who crave the interaction and the environment that eating and drinking out provides. This was evidenced by the peak in demand in August and by increased demand prior to the November closure of premises across England. However, as long as restrictions continue to tighten, there will inevitably be a negative impact on the trade of pubs and restaurants due to decreased demand.

Digital technology has also become increasingly important in supporting the business during the pandemic. Technology allows the service cycle to be adapted whilst adhering to Government restrictions. Facilities such as guests' ability to make an order at the table on their phone has been helping pubs and restaurants to reduce contact between our teams and guests, creating a service cycle with which more people feel comfortable. These sorts of technological interventions also help to improve the economics of a service cycle which has become more reliant on table service. The use of technology to enhance guests' experience has been accelerated due to the impacts of Covid-19 and this trend will continue in the short term as offers are tailored to adapt to the new trading environment.

Brexit remains an important event for the market. The precise terms, and therefore impact, of Brexit remain uncertain in the absence of an agreement having been reached. However, the likely impacted areas for the pub and restaurant industry will be: imported goods tariffs; potential restrictions on the availability of goods; and the implications of restrictions on the free movement of labour. We remain close to these issues and have contingency plans in place whilst we await further details.

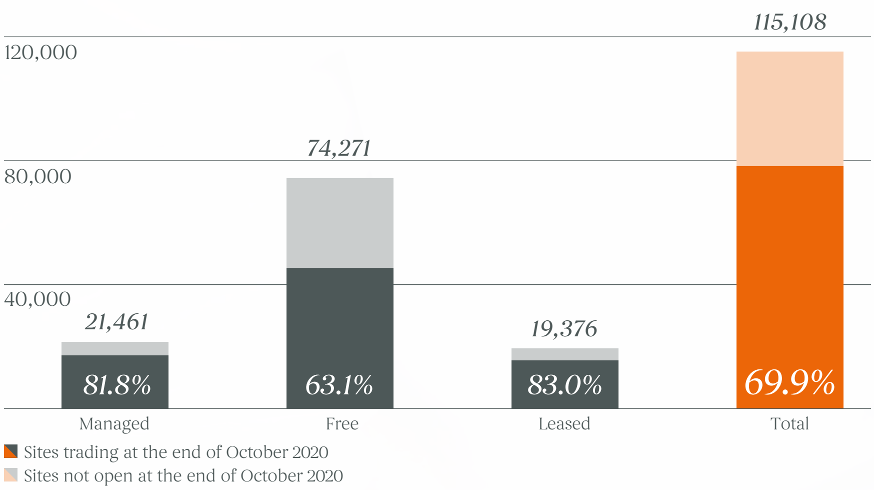
"In the longer term, affinity for pubs and restaurants remains and, as ever, people remain social beings who crave the interaction and the environment that eating and drinking out provides. This was evidenced by the peak in demand in August and by increased demand prior to the November closure of premises across England. However, as long as restrictions continue to tighten, there will inevitably be a negative impact on the trade of pubs and restaurants due to decreased demand."

CUSTOMER CONFIDENCE



Source: GFK consumer confidence index

ALL VENUES – PROPORTION OF PRE-LOCKDOWN SITES OPEN IN OCTOBER 2020



Source: AlixPartners CGA Market Recovery Monitor

Our strategy aims to deliver long-term sustainable shareholder value through organic and sustainable growth

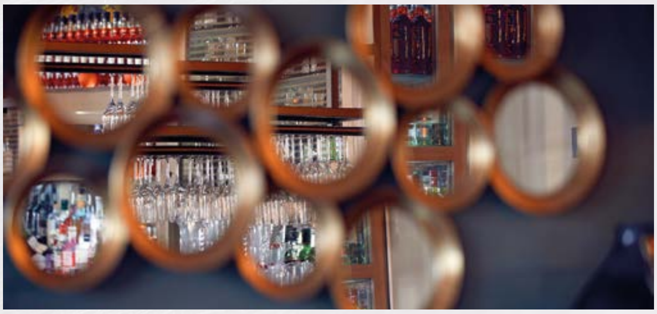
Our strategic priorities are the pillars which underpin the activity within the business to drive long-term sustainable growth and ultimately, which enable us to achieve our purpose to be the host of life's memorable moments, bringing people and communities together through great experiences. Through building a strong and efficient business we are able to focus on providing experiences which our team and guests feel good about, including processes which are sustainable and aim to bring people together throughout our supply chain. We have maintained consistency in our three strategic priorities over recent years and believe that continued focus in these areas is key to re-establish stability and growth in the business following a period of uncertainty. Our three strategic priorities are:

- Build a more balanced business
- Instil a more commercial culture
- Drive an innovation agenda

Focusing on these areas through our Ignite programme of work, a wide range of management improvement initiatives, has delivered significant progress over recent years, starting with generating like-for-like sales[a] growth and sustained outperformance of the market, and followed by adjusted operating profit[a] growth of 4.6% in FY 2019. Over the past four years, two waves of Ignite initiatives have directly led to enhanced performance over a number of areas, improving our trading levels and increasing profitability. Examples of the initiatives we have rolled out include deploying a sophisticated labour deployment tool, empowering all of our team members to upsell and improving our digital interactions with guests. Our focus on these key strategic areas was reflected in our strong trading performance when we reopened after closure in July, and in our consistent outperformance of the market.

At the beginning of FY 2020 we developed a new wave of initiatives which will form the third wave of Ignite. In the short term, as a result of the Covid-19 pandemic, we have had to delay some of the initiatives we had planned under these priorities as we focus on rebuilding trade and remaining flexible in the current uncertain environment. Our short-term priority is to provide a safe environment for our guests and team members and to trade as effectively as possible as restrictions ease. We believe that our three strategic priorities will remain the crucial elements of the business which will drive the long-term growth and will continue to unlock value in these areas through our Ignite workstreams.

a. The Directors use a number of alternative performance measures (APMs) that are considered critical to aid the understanding of the Group's performance. Key measures are explained on pages 161 and 162 of this report.



1. BUILD A MORE BALANCED BUSINESS

- To effectively utilise our estate of largely freehold-backed properties
- To ensure we are exposed to the right market segments by having the optimal trading brand or concept in each outlet, based on location, site characteristics and local demographics
- To maintain the amenity level of the estate such that we operate safely, have the ability to reduce our impact on the environment and remain competitive to guests, alongside meeting cash flow commitments

FY 2020 progress

- The investment programme was suspended in March but remains a long-term priority area for the business and will recommence once cash management allows
- Before closure in March, focus remained on enhancing the quality of our estate with investment in the year of £108m
- Completed 168 capital projects in the financial year before the suspension of the capital programme. Disposed of ten sites which did not fit into our estate strategy

FY 2021 priorities

- The capital programme will resume in FY 2021, the timing of which will be considered within our wider cash flow commitments given the impact of Covid-19
- Honour the minimum maintenance spend as required by the securitisation structure and ensure effective allocation of capital

Sustainability

- Through a newly established partnership with Ramco, we saved around 200 pieces of kitchen equipment from landfill through resale
- Identified opportunities to reduce our consumption of natural resources across the estate and established a roadmap to achieve our greenhouse gas reduction ambitions
- Rolled out a bin optimisation programme to ensure that all sites have the necessary resources and knowledge to help facilitate our target of higher recycling rates across the business

Links to Key Risks 1, 2, 3, 4, 9, 10, 12, 13
See pages 32 to 38

Links to KPIs 2, 3, 4, 5
See pages 30 and 31

2. INSTIL A MORE COMMERCIAL CULTURE

- To empower teams across the business to make changes to facilitate sustainable growth
- To engage our teams in delivering outstanding guest experiences
- To act quickly and decisively to remain competitive in our fast-changing marketplace
- To provide training and development opportunities which allow our people to thrive within the business
- To enhance processes to address Modern Day Slavery threats in the supply chain

FY 2020 progress

- The greatest challenge of the year has been tackling the Covid-19 enforced closure in March and subsequent reopening and further disruption and restrictions
- Our teams successfully managed safety in the businesses before closure when the pandemic situation was developing at a rapid pace, with guidance evolving alongside it
- Teams have quickly adapted to the new Covid-secure procedures required in our businesses and have worked hard to ensure that guests' experiences have not been negatively impacted
- In the current environment good cost control is essential and has been delivered by diligent management of each business
- Central procurement teams have worked successfully alongside suppliers to ensure sites were stocked for reopening on relatively short notice, leveraging and maintaining the strong supplier relationships which have already been established
- Modern Day Slavery training completed with procurement team to enable them to identify and report risks of Modern Day Slavery in the supply chain

FY 2021 priorities

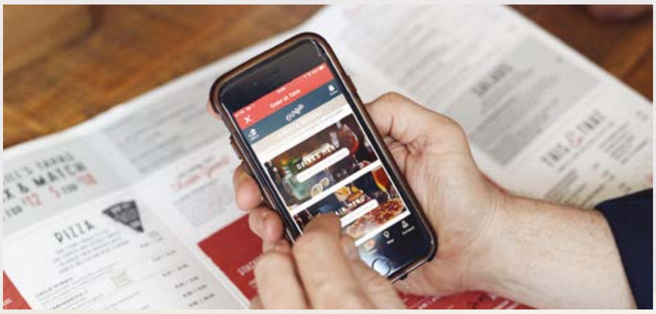
- React to the new environment within which we operate to maximise the profitability of each business
- Ensure the financial stability of the Group
- Utilise cost control initiatives across the estate
- Evolve promotional analysis to create data-led decision making
- Increase average spend per head through tailored pricing, menu psychology and team member upselling

Sustainability

- During FY 2020 the equivalent of 57,000 meals were donated through our partnership with FareShare
- Digital platforms were used to communicate with employees during the Covid-19 closure periods, and to ensure training on new safety procedures was completed by team members before they returned to work
- Apprentices were able to continue their learning through a remote learning platform throughout closure
- Reopening with simplified menus has helped to reduce food waste, which is one of our key sustainability priorities
- Enhance processes to enable us to assess, identify and report instances of Modern Day Slavery through our work with Stop the Trafik, focusing primarily on the high-risk areas of the organisation and supply chain

Links to Key Risks 1, 2, 3, 4, 7, 9, 10, 12, 13
See pages 32 to 38

Links to KPIs 1, 2, 3, 5
See pages 30 and 31



3. DRIVE AN INNOVATION AGENDA

- To ensure that our brands and formats remain fresh and relevant within their market segments
- To leverage the increasing role technology can play in improving efficiency and guest experience
- To execute a digital strategy to engage with consumers across a variety of platforms
- To facilitate new product and concept development
- To utilise our scale and position to lead on environmental issues which impact our sector, finding innovative solutions to pressing issues

FY 2020 progress

- Continued focus on developing our delivery offers with 379 sites live with Just Eat and Deliveroo
- Quick response to develop Covid-secure requirements and effective roll out across all sites
- Clear communication with guests to explain changing brand safety procedures in response to the pandemic
- Our established mobile order-at-table solution was rolled out to more brands in response to changing guest needs due to Covid-19
- The ability to pay on a mobile phone via a brand app or through Flyt was rolled out across all brands

FY 2021 priorities

- Further expand our delivery and take away offer across more brands
- Continue to roll out our mobile order-at-table facility to more brands
- Continue to react to the evolving environment we operate in to ensure that guests continue to trust our brands as a safe place to visit
- Continue to evolve and develop all of our brands and concepts to ensure that they stay relevant to guest needs

Sustainability

- Finding innovative ways to reduce our energy consumption to contribute to our carbon emission reduction
- Evolving our menus to reduce the carbon impact of our food supply
- Empowering managers to make sustainable choices within their businesses
- Working with partners to access best practice across sustainability priorities and contributing to collaborative industry groups to share experiences
- Supporting businesses looking to find sustainable solutions relevant to our industry

Links to Key Risks 1, 2, 3, 5, 6, 9, 12, 13
See pages 32 to 38

Links to KPIs 2, 3, 5
See pages 30 and 31

Our sustainability targets

Operating the business in a sustainable way underpins these priorities and is a part of the way we want to do business. We have purposefully interlinked sustainability into our strategic priorities so that it increasingly becomes part of our culture. In the FY 2019 report we set out our sustainability strategy in detail and introduced our targets in this area. Our strategy is in line with the objectives of the Paris Climate Agreement and we have committed to considering the implications of our business model, objectives and business strategy in light of these objectives.

Through a materiality assessment we have identified the UN Sustainability Development Goals which we believe can have the greatest impact on and have aligned these to our strategic pillars as shown on the facing page. For each of the pillars we have defined our objective, key actions and targets. We work closely with the Sustainable Restaurant Association and industry groups to share best practice and learning to move the industry forward as a whole.

OUR TARGETS

1. Greenhouse gas emissions

-25%

Target: Reduce greenhouse gas emissions by 25% by FY 2030 (measured as GHGe/meal, including scope 1, 2, and 3 emissions)

Performance: Total scope 1 and 2 emissions reduced by 28.9% in the year. The reduction is primarily due to closure in the period, is not representative of a normal year and therefore will not be included within the long-term reduction measurement. Our baseline emissions are outlined on pages 56 and 57.

2. Food waste

-20%

Target: Reduce food waste by 20% by FY 2025

Performance: The requirement for reduced menus on reopening following the Covid-19 related closure has resulted in a reduction in food waste. However, our plans to tackle food waste within our sites, following the Wrap UK roadmap, has been delayed due to closure. We hope to restart this initiative in FY 2021 when the operational environment allows.

3. Plastics

Zero

Target: Remove unnecessary single-use plastics by FY 2021

Performance: We have successfully removed the eight items identified by Wrap UK as unnecessary single-use plastics from the business thereby achieving this target. Our focus now moves to other plastics currently used in the organisation with a view to finding alternative products which are more friendly to the environment.

4. Recycling

80%

Target: Increase proportion of waste recycled to 80% by FY 2025

Performance: During the financial year a bin optimisation programme was completed, ensuring all sites had the appropriate recycling bins in optimal locations. However, due to the impacts of Covid-19, recycling plant capacity was reduced and, consequently, a proportion of our waste was unable to be recycled by our waste management contractors. As a result the recycling rate at the end of the financial year was 56.7%.

SUSTAINABILITY STRATEGIC PILLARS

1. Sourcing

Objective
Reduce the negative impact of our food and drink supply chain on greenhouse gas emissions, biodiversity and deforestation

Key actions
- Part of Cool Food Pledge to reduce emissions of food supply chain
- Developing a strategy for sustainable soy purchases
- All direct palm oil from RFA approved sources, working with supplier on embedded soy

2. Community

Objective
Increase the positive effect on people impacted by the business, be they employees, guests or the wider community

Key actions
- Developing strategic partnerships with charities
- Enhanced employee wellbeing strategy
- Brand-driven relationships with local organisations and charities

3. Resources

Objective
Reduce the use of natural resources and find opportunities to contribute to the development of a circular economy

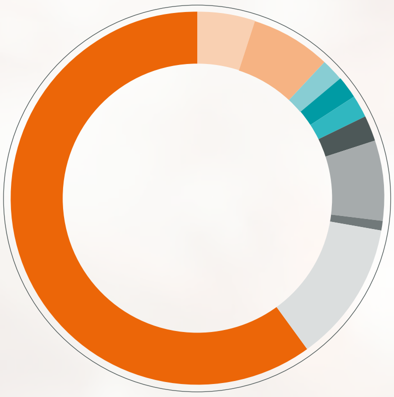
Key actions
- Initiative in place to reduce energy consumption
- Review water usage and develop strategy to reduce consumption
- Work with suppliers to align resource reduction objectives

GREENHOUSE GAS FOOTPRINT

Target: reduce greenhouse gas emissions by 25% by FY 2030

The challenge to reduce greenhouse gas emissions is central to our sustainability strategy and remains a priority for the business despite the challenging trading environment. We are building measurable, data-led initiatives to achieve our target reduction, allowing us to clearly understand our progress. This is a complicated challenge and one which must be considered in the context of other unintended environmental consequences; therefore, we will continue to consult with third-party experts and we will evolve our plan.

GREENHOUSE GAS EMISSIONS FY 2019



Our target is to reduce our greenhouse gas emissions by 25% by FY 2030, measuring scope 1,2 and 3 gases. To understand how we can achieve this aim, we have been working hard to calculate the baseline from which we can measure our progress, for which we have used FY 2019. By calculating the baseline using third-party experts we have been able to identify the areas of opportunity for future reduction. The chart sets out a summary of the main categories which make up our baseline footprint. We have not presented FY 2020 emissions as due to the closure period the data is not representative of a normal year.

An example of an area of opportunity to reduce carbon emissions is in the food we serve. Our food supply chain is the largest single contributor to our emissions, representing 60% of our total footprint, and captures the emissions generated in the production of the ingredients we use in our menus. This is typical of a restaurant or catering company and brings to the fore the importance of understanding the food we serve to our guests and the impact that has on the environment. Given the scale of the emissions generated by our food supply we are working with the World Resources Institute on their Cool Food Pledge programme to measure the impact of each ingredient we use and to plan a roadmap for emission reduction. The emissions reduction plan will be built with consideration to reducing the negative impact food production has on biodiversity and maintaining high standards of animal welfare.

We have also identified energy, including electricity and gas, as an area of opportunity for reduction. Within the sphere of this work we are analysing the opportunities to buy greener energy, to reduce consumption through behavioural change and to invest in more efficient equipment. We are about to embark upon the first stage of our plan, an initiative to help reduce electricity consumption by informing and engaging teams on the impact they can have.

The Mitchells & Butlers difference

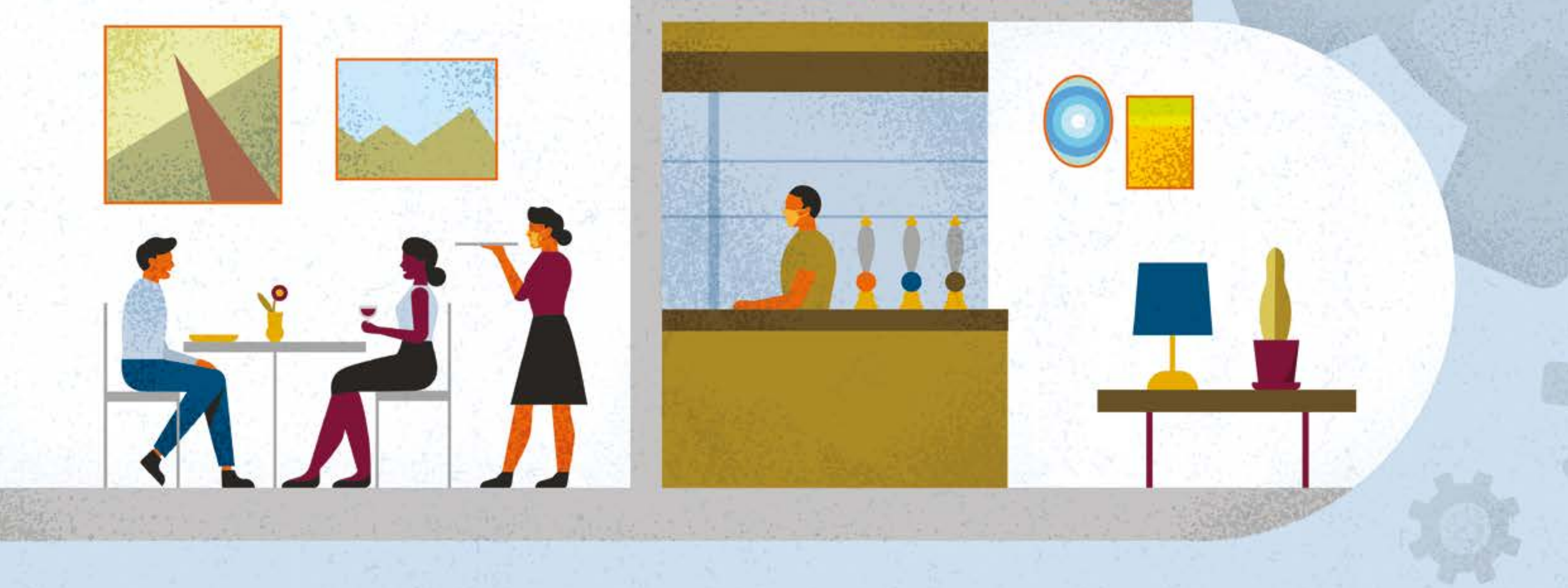
In this section, we outline the distinctive characteristics of Mitchells & Butlers that enable it to create value for its stakeholders – be they financial, structural, environmental or cultural.

FINANCIAL

- Long-term transfer of value to equity as debt is paid down
- Strategy designed to generate sustainable growth and to provide flexibility in uncertain trading environments

STRUCTURAL

- We have a diversified portfolio of leading brands and offers
- We are a predominantly freehold business with well-invested properties
- As one of the leading operators we benefit from economies of scale driven by our central functions
- We understand our guests and have the systems in place to receive and react to their changing needs to evolve our offers



ENVIRONMENTAL

- Our sustainability strategy is designed to create a positive effect on people and communities and to reduce the negative effect of our operations on the environment

CULTURAL

- We have a defined purpose supported by our PRIDE (Passion, Respect, Innovation, Drive, Engagement) values
- Our people strategy encompasses a structured approach to recruitment, retention, development and engagement
- We have a team of dedicated, knowledgeable and capable people who are critical to delivering outstanding experiences to our guests

How we create value

Our business model is driven by our understanding of our guests and our ability over time to evolve our brands and offers to reflect changes in their needs.

Critical to the delivery of our offers is the quality of our people, supply chain, estate and central functions, which provide the infrastructure through which our brands deliver memorable moments to our guests.

Our success in creating these moments consistently, safely and profitably creates long-term value for our stakeholders.

Everything we learn about our guests' requirements is fed back.

Suppliers
Page 24

Guests
Page 25

Employees
Page 26

2

Understanding what our guests want influences every element of our brands and offers.

3

Everything we do is…

Run by our people…
*42,500**
employees

Supplied by our supply chain…
1,667
suppliers

Realised within our estate…
1,738
pubs, bars and restaurants

Supported and managed by our central functions…
Finance and Technology, Human Resources, Legal and Risk, Marketing, Procurement and Property

The combination of our brands, people, supply chain, estate and central functions creates memorable moments for our guests.

Local community
Page 27

Environment
Page 28

Investors
Page 29

* as at 26 September 2020.

Suppliers

FY 2020 HIGHLIGHTS

BBFAW

achieved tier 2 Business Benchmark on Farm Animal Welfare rating

Worked closely with suppliers through the pandemic closure and reopening to ensure businesses reopened with sufficient stock levels at relatively short notice

Maintained the established long-term relationships through the crisis to ensure that both businesses' needs were met as far as possible

Minimised waste in the supply chain from initial closure of the business due to Covid-19 through our partnership with FareShare

Our suppliers provide the products which bring our brand visions to life. Our guests' tastes are continuously evolving and our ability to meet changing preferences at scale sets us apart from our competitors.

We build long-term and collaborative partnerships with our suppliers and it is thanks to these relationships that we were able to successfully reopen the majority of the estate following the first Covid-19 closure with minimal stock issues. We worked closely with suppliers during the closure and subsequent reopening to ensure the needs of both businesses were met as far as possible and to ensure relationships were maintained.

By working together, we can develop new and innovative products with suppliers which help our brands adapt and evolve, building both of our businesses.

We work with suppliers to understand the environmental impact of our supply chain and work together to minimise the negative impact of production and transportation. We are working to ensure that all of our suppliers can support our sustainability ambitions, including prioritising high animal welfare standards.

ISSUES

- Long-term and collaborative relationships
- Products are aligned with guest needs
- Environmental impact and animal welfare
- Transparent business and payment terms

HOW WE ENGAGE

We aim to develop open and long-term relationships where shared insight from different perspectives can help both sides to grow and innovate. We work collaboratively with suppliers to secure high-quality products which we are proud to serve. By working together we can ensure that products evolve with consumer expectations and are well communicated to our guests.

Our central procurement function and brand teams develop open relationships with suppliers which facilitate ongoing communication. We set high standards of practice as part of our supplier agreements and when necessary use our experience to help smaller suppliers achieve those standards.

We also hold an annual suppliers' conference to communicate our business ambitions and ways of working, including our expected code of conduct and practices.

"By working together, we can develop new and innovative products with suppliers which help our brands adapt and evolve, building both of our businesses."

Guests

FY 2020 HIGHLIGHTS

Industry leading safety scores

4+

online review score of over 4 out of 5 across the business

Average online review scores increased after reopening following initial Covid-19 closure

Like-for-like sales[a] rebuild, performance remains ahead of industry average

The satisfaction and enjoyment of our guests is critical to the success of our business. We always aim to exceed guests' expectations and continually evolve our offers with that objective in mind.

As the Covid-19 pandemic has unfolded over the period our ability to provide a safe environment has become more important than ever. We have always strived to achieve the highest safety and hygiene standards and have used this strong base to evolve our ways of working for the new challenges we face. We focus on ensuring high-quality, consistent practices across the business. In this current environment this has been achieved through detailed Covid-secure brand guidelines being developed centrally with brand input and clearly communicated to teams so that expectations are clear. We have constantly reviewed the new procedures to ensure that both high safety levels and guest satisfaction can be achieved.

As ever, high-quality food and drink, served by an engaged team, in an appealing environment remain key elements to providing our guests with memorable experiences, alongside the highest safety standards. We continually assess changing guest preferences across these areas to position our brands for success.

ISSUES

- High-quality products and service
- Safe environment
- Clear allergen information
- Ability to have feedback heard and considered

HOW WE ENGAGE

Our business is driven by people and as a result we are in the fortunate position to receive 'live' feedback from our guests. Our general managers and team members interact with guests every day and receive valuable feedback on personal experiences.

Reopening following the initial Covid-19 closure was a significant challenge for the Company, and ensuring guests felt safe in our pubs and restaurants was of paramount importance. A centralised steering committee ensured that safety procedures and requirements were clearly understood and built into brand level Covid-secure guidelines. These guidelines were put in place to ensure that both guests and team members were safe within our businesses and clearly understood both the changes we had made in response to the pandemic and our expectations of them. We closely reviewed feedback following reopening after the initial closure period and we are constantly reviewing our guidelines to ensure that we are adopting best practice and creating an environment in which guests can both feel safe and have an enjoyable experience.

a. The Directors use a number of alternative performance measures (APMs) that are considered critical to aid understanding of the Group's performance. Key measures are explained on pages 161 and 162 of this report.

Employees

FY 2020 HIGHLIGHTS

M&Be Together is an online community bringing together employees across the Company

M&Be Borrowed developed a way to offer a return to work in neighbouring sites for furloughed employees whose 'home' site was closed due to Covid-19

Personal development and training opportunities during closure through our digital learning platform

Apprentices able to continue their learning throughout lockdown using a remote learning module

Digital learning platform facilitates efficient update of guidelines as needed

Wellbeing support provided throughout

Our people are central to our business, bringing brand visions to life through engaging interaction with our guests and preparation of high-quality food and drink.

Through our open and inclusive culture, we aim to create an environment which allows our people to develop and thrive. We are proud of the training and development opportunities we offer and strive to provide progression opportunities to all of our people.

The welfare of our employees is of paramount importance to us and we continually review the support we offer to employees across the business. Covid-19 has brought this even further to the fore and we have been proud of the quick response we were able to make to the pandemic in order to keep our people safe. Clear and consistent communication has been key throughout the pandemic developments to ensure the Company remains united and informed.

Before reopening, after the initial closure period, we developed detailed brand-specific reopening plans designed to keep managers and teams safe, informed by the results of a survey sent to employees to understand their concerns around returning to work. The ongoing wellbeing of employees remains a primary focus of the Company as we continue to navigate through the challenges the pandemic presents.

ISSUES

- Creating a safe working environment
- Ensuring employee expectations and needs are understood and met
- Providing development and progression opportunities
- Diversity and inclusion

HOW WE ENGAGE

Throughout the initial closure period we maintained clear, central communication to all employees aiming to keep everyone up to date with the latest developments in response to the pandemic. Online communication networks were created through social media sites which saw high levels of engagement, facilitating a sense of unity through the closure period and giving the opportunity to share positive news stories.

Before reopening following the initial Covid-19 closures we engaged with employees to understand their concerns about returning to work. We provided thorough information and central support to assist managers in safely reopening their businesses so that team members and guests could feel safe in their business. We reopened businesses at a lower capacity than permitted by Government guidelines to ensure that we could confidently operate under our newly developed measures and gradually increased capacity as teams' experience grew, at all times putting the safety of teams and guests at the top of our priorities.

We have two formal feedback surveys a year providing the opportunity to gain insight into employee satisfaction and to highlight opportunities to improve our offer as an employer.

Employee forums are hosted by the Executive team and are open to all employees, giving the opportunity for team members to directly discuss any issues.

Dave Coplin, an independent non-executive director, is the nominated Board member responsible for representing the employee voice at Board level.

We are committed to providing equal opportunities for all of our employees. Our employee Diversity and Inclusion Policy ensures that every employee, without exception, is treated equally and fairly and that all of our employees are aware of their responsibilities.

The following table sets out our diversity balance between men and women at the end of FY 2020.

	Men	Women
Directors	9	3
Other senior managers	29	13
All employees	20,159	22,392

Local community

FY 2020 HIGHLIGHTS

Providing a safe environment for communities to come together during the Covid-19 pandemic

£173m

Tax paid (not including tax collected, e.g. VAT)

20%

Achieved sugar reduction pledge to reduce sugar by 20% by FY 2020

#3

Harvester awarded No.3 in Out to Lunch rankings by The Soil Association

Pledge to the Peas Please campaign

Developed a nutritional roadmap focused on enhanced information and balanced choices

We have a long history of providing a central hub to many communities where people have met and socialised for decades. We are proud of our position in local communities and have been pleased to be able to re-establish this service following the initial enforced Covid-19 closure. It was encouraging to see that the pub was one of the most missed meeting places during the first lockdown and that encourages us further to ensure we maintain the prominence of pubs and restaurants within the local community and continue to serve as a place to bring people together.

Many of our brands are long-standing supporters of causes which resonate with the brand and its guests. For example, All Bar One supports Shelter with selected dishes including a donation. Toby Carvery supports the Armed Forces and Nicholson's supports the Royal National Lifeboat Institution.

We are actively looking to enhance the positive impact we can have on local communities, including supporting charities, providing career opportunities, encouraging responsible drinking, and supporting health by enhancing and providing information on the nutritional content of our meals.

ISSUES

- Providing a safe place for communities to meet
- Local disruption
- Impact on local economy
- Social mobility
- Charitable partnerships

HOW WE ENGAGE

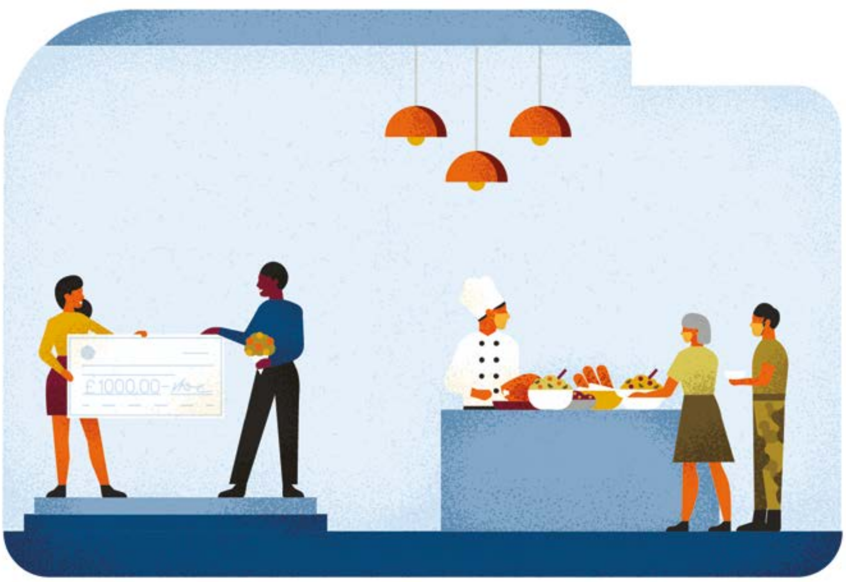
We have personal interaction with our guests from the local community within our businesses and our general managers have the support to find ways to connect and support their local communities.

Centrally we support charities which are focused on supporting people and communities. Our charitable partners are Mind and Shelter and we are looking at opportunities to enhance the support we offer.

Last year we developed a partnership with FareShare, donating the food in our supply chain which would otherwise go to waste. FareShare redistribute this food to a number of charitable organisations ensuring that the donated food goes to those who need it.

Our company nutritionist provides expert insight into ways in which we can enhance the nutritional content of our offers, and a working group has established a long-term road map to ambitious goals in this area.

"We are proud of our position in local communities and have been pleased to be able to re-establish this service following the initial enforced Covid-19 closure."



Environment

FY 2020 HIGHLIGHTS

All direct palm oil purchases are from Rainforest Alliance approved sustainable sources

57,000

Food which would otherwise be wasted equivalent to 57,000 meals redistributed through partnership with FareShare

Unavoidable pub and restaurant food waste sent to anaerobic digestion

Recycled waste is processed in the UK and northern Europe only

Completed the measurement of greenhouse gas baseline (see pages 56 and 57)

The natural environment provides the business with the resources it needs to operate. We take our responsibility to protect that environment seriously and, therefore, last year we reviewed our sustainability strategy and set stretching targets to reduce the negative impact of our business.

We have aligned our objectives with the UN Sustainable Development Goals in order to focus our efforts on the global priorities. Our aim is to embed a sustainable way of doing business within our current operations such that it becomes business as usual and we are doing that through a Board-level committee, steering committee and focus workstreams with representatives from across the business.

The food industry has an important part to play in climate change, as food supply chains are a significant factor in rising greenhouse gas emissions and in the reduction of biodiversity. We have measured our baseline emissions and have used this to create a roadmap for reduction which is one of our priority areas. We are also conscious of the food industry's significant impact on biodiversity which is another area we are balancing within our future plans to reduce the negative impact our organisation has on the environment and to enhance the positive outcomes wherever possible.

ISSUES

- Working to prevent damaging levels of global warming
- Protecting biodiversity
- Reducing the use of scarce resources

HOW WE ENGAGE

We aim to make sustainable and responsible operations part of the way we do business and we have developed a sustainability strategy with clear priorities to facilitate that. We are prioritising the areas where we can have the biggest impact first and have ambitions across a number of areas which we will pursue in the most effective way possible over the coming years. Our focus areas in the short term include: reducing the emissions generated by our food supply chain through the Cool Food Pledge; reducing our consumption of energy through behavioural change; and enhancing our nutritional approach by providing balance and information to guests.

The Board is actively involved in the sustainability priorities of the organisation through its Corporate Responsibility Committee which addresses all ESG issues. This has cascaded into the organisation through a steering committee which guides various workstreams focusing on specific areas. We have also held engagement sessions with various sectors throughout the Company to communicate our plans and to facilitate feedback and generate ideas.

We are actively collaborating with organisations such as The Sustainable Restaurant Association and UK Hospitality to support industry-wide changes, including policy setting, and to share knowledge on best practice so that collectively we can reduce the negative impact our market has on the environment.

"The food industry has an important part to play in climate change, as food supply chains are a significant factor in rising greenhouse gas emissions and in the reduction of biodiversity."

Investors

FY 2020 HIGHLIGHTS

Strong stewardship through the Covid-19 pandemic

Clear communication maintained with investors through additional statements and one-to-one meetings

Reporting on Environmental, Social and Governance issues enhanced

Our investors are made up of our shareholders and bondholders who play an important role in monitoring and safeguarding the governance of the Company.

We aim to demonstrate the responsible stewardship of the Company from a financial, strategic, governance, environmental and ethical perspective. We have a highly effective Board, with Directors with various specialisms and backgrounds to best govern the Company. During the Covid-19 pandemic the Board has been actively involved in all areas of decision making, including the reopening strategy, communications, operational practices and the financing strategy.

Board-level committees ensure that appropriate time and focus is allocated to the key areas of governance of the business and where necessary expert third parties are consulted. The Board provides a healthy level of challenge and debate on key areas and has been successful in moving the business forward and in navigating the challenges of Covid-19.

The Executive Committee consists of members of management from across the business who have a wealth of experience both within the hospitality industry and from other sectors.

It is important that our investors have transparency over the operation of our business and the full details of our governance procedures are set out on pages 59 to 69.

ISSUES

- Strategy and business model
- Financial performance
- Safety and risk assessment
- Capital allocation
- Environmental, social and governance matters

HOW WE ENGAGE

We maintain an open dialogue through our investor relations programme. We update investors on financial and strategic performance through regular performance updates including full year and half year presentations and quarterly trading update statements.

We facilitate discussion through one-to-one meetings, group investor meetings, our bi-annual roadshows and our Annual General Meeting. We have a policy of transparency and facilitate meetings at the request of investors and potential investors.

We ensure that investor views are brought to the boardroom and are considered in decision making through feedback from roadshows and investor meetings.

Measuring performance

We measure our performance against our strategy through five key performance indicators.

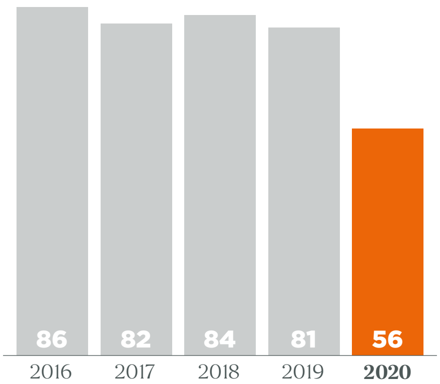
1. STAFF TURNOVER

Definition
The number of leavers in our retail businesses, expressed as a percentage of the average number of retail employees. This like-for-like measure excludes site management. The turnover measurement gives an indication of the retention of retail staff and can help to identify if there is an arising retention issue in any area of the business which could highlight an engagement issue. In addition as team members go through a thorough induction and training process there is an element of cost for each person who leaves the business. Therefore it is important for the Board to monitor this measure.

FY 2020 performance
Retail staff turnover decreased by 25 ppts to 56% due to the impact Covid-19 has had on the normal course of business. The number of leavers has been suppressed due to closure and Government support, such as the furlough scheme.

We will continue to focus on supporting our people as we trade through the uncertain environment we currently operate in and expect turnover inevitably to rise back to pre-pandemic levels.

56%



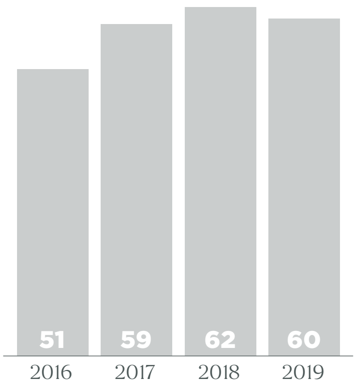
Links to strategic priorities: 2
See pages 16 and 17

2. NET PROMOTER SCORE

Definition
The net promoter score for a site is defined as the percentage of responses where we score 9 or 10 out of 10, less the percentage of responses where we score 0 to 6 out of 10 based on the question "how likely are you to recommend this site to a friend and/or relative?". This is an important metric for Board review as it indicates guest satisfaction and helps to identify where brands are performing particularly well and to give an early warning of any potential issues of guest disengagement.

FY 2020 performance
Net promoter score is measured through responses to site specific surveys. These surveys have been switched off during the closure period and subsequent reopening. Therefore, we are not able to calculate the period end score.

However, our average feedback score across all major feedback channels was 4.2 out of 5 for FY 2020.



Links to strategic priorities: 1, 2 and 3
See pages 16 and 17

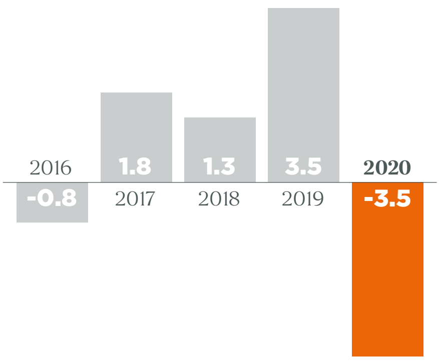
a. The Directors use a number of alternative performance measures (APMs) that are considered critical to aid the understanding of the Group's performance. Key measures are explained on pages 161 and 162 of this report.

3. YEAR-ON-YEAR SAME OUTLET LIKE-FOR-LIKE SALES[a]

Definition
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. Like-for-like sales is an important indicator of how the business is performing in the context of its performance in the previous year, the long-term trend of which can reflect improvements in guest appeal. As like-for-like sales can only be measured when sites are trading, the measure excludes periods of closure in response to Covid-19.

FY 2020 performance
Like-for-like sales declined by 3.5% in FY 2020. This deterioration in trend against previous years is due to the impacts of Covid-19 on consumer confidence and capacity as well as the social distancing measures in place. Growth remained consistently ahead of the market as measured against the Coffer Peach Tracker.

-3.5%



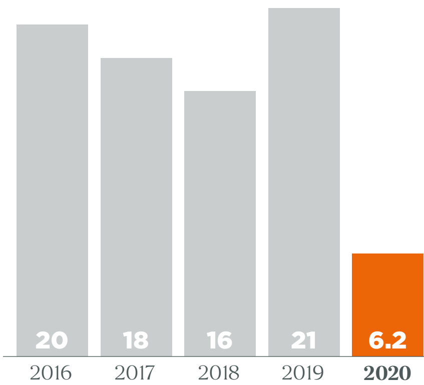
Links to strategic priorities: 1, 2 and 3
See pages 16 and 17

4. INCREMENTAL RETURN ON EXPANSIONARY CAPITAL[a]

Definition
Expansionary capital includes investments made in new sites and investment in existing assets that materially change the guest offer. Incremental return is the growth in annual site EBITDA, expressed as a percentage of expansionary capital. Is it important for the Board to monitor return on investment as it indicates the success of the capital programme which underpins one of our three key strategic priorities: to build a balanced business.

FY 2020 performance
The EBITDA return on all conversion and acquisition capital invested in FY 2020 was 6.2%. The reduced level of return is not indicative of the quality of the investment programme, which has performed well over recent years, but due to the closure periods and reduced trading levels captured in the calculation.

6.2%



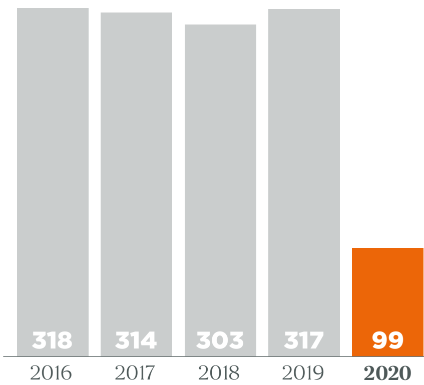
Links to strategic priorities: 1
See pages 16 and 17

5. ADJUSTED OPERATING PROFIT[a]

Definition
Operating profit before separately disclosed items as set out in the Group Income Statement. Separately disclosed items are those which are separately disclosed by virtue of their size or incidence (see note 2.2). Excluding these items allows a better understanding of the trading of the Group. The Board monitors adjusted operating profit as one of the financial health indicators, as it helps to reveal how efficiently the business is being operated.

FY 2020 performance
Adjusted operating profit for the year of £99m was 68.8% lower than the prior year. This reduction in profit is due to the impacts of Covid-19 during the period, including closure and reduced trading levels partially offset by Government support schemes.

£99m



Links to strategic priorities: 1, 2 and 3
See pages 16 and 17

Keeping risk under control

This section highlights the principal risks and uncertainties that affect the Company, together with the key mitigating activities in place to manage those risks.

This does not represent a comprehensive list of all of the risks that the Company faces, but focuses on those that are currently considered to be most relevant.

OVERVIEW

Risk management is critical to the proper discharge of our corporate responsibilities and to the delivery of shareholder value. Risk is at the heart of everything we do as an organisation. Therefore, the process for identifying and assessing risks and opportunities for improvements is an integral and inseparable part of the management skills and processes which are at the core of our business.

There is a formally established Risk Committee in place which continues to meet on a regular basis to review both the key risks and emerging risks facing the business.

Key risks identified are reviewed and assessed by the Risk Committee in terms of their likelihood and impact and recorded on the Group's 'Key Risk Heat Map', in conjunction with associated agreed risk mitigation plans. The processes that are used to identify emerging risks and manage known risks are described in the Internal Control and Risk Management statement on pages 68 and 69.

Management support, involvement and enforcement is fundamental to the success of our risk management framework and members of the Executive Committee take responsibility for the management of the specific risks associated with their function. Our Group risk register clearly outlines the alignment of each key risk to an Executive Committee member and identifies an 'action owner', to ensure responsibilities are formally aligned.

During FY 2020, new and emerging risks presented to the Group as a result of Covid-19 were subject to regular review and scrutiny by the Executive Committee and the Covid-19 Steering Committee. Mitigation plans were put in place for all key risks. More details of these governance arrangements are set out on pages 59 to 69.

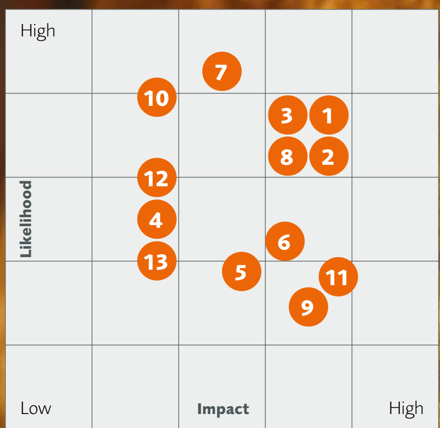
Throughout FY 2020, the Risk Committee and the Board have followed and monitored the political developments and negotiations for the relationship which the UK will have with the EU at the end of the transition period following the UK's departure from the EU at the end of January 2020. In preparation for these events, the Company has developed plans to mitigate any impact that might arise at the end of that transition period. Those plans have been reviewed and approved by the Risk Committee and agreed and adopted by the Board. As the nature of the relationship between the UK and the EU which will exist at the end of the transition period remains unresolved, those mitigation plans remain under review.

There is a robust and transparent process in place to provide an appropriate level of direction and support in the identification, assessment and management of risks across all areas of the business which have the potential to seriously damage our financial position, our shareholder value, our responsibilities to our staff and guests, our reputation and our relationships with key stakeholders.

RISK HEAT MAP

The risk matrix below includes an indication of the likelihood of a 'risk event' occurring in relation to each of the principal risks and the expected magnitude of the impact of each such event.

Risk#	Risk title
1	Borrowing covenants
2	Material uncertainty
3	Declining sales performance
4	People planning and development
5	Business continuity and crisis management
6	Information security and disaster recovery
7	Wage cost inflation
8	Pension fund deficit
9	Failure to operate safely and legally
10	Cost of goods – price increases
11	Food supply chain safety
12	Health and lifestyle concerns
13	Environment and sustainability



OUR THREE LINES OF DEFENCE

1st

- Executive Committee
- Leadership group/management
- Internal controls and processes
- Internal policies and procedures
- Training

2nd

- Financial authority limits
- Risk Management processes
- Audit Committee
- Risk Committee
- Covid-19 Steering Committee
- Health and Safety Team
- Technology specialists
- Legal support

3rd

- Group Assurance
- Operational Practices Team

RISK CATEGORY AND DESCRIPTION	CONTROLS/MITIGATING ACTIVITIES	MOVEMENT
1. Borrowing covenants There are risks that borrowing covenants are breached because of circumstances such as: i. The continuation of disruption due to the Covid-19 pandemic; ii. A change in the economic climate leading to reduced cash net inflows; or iii. A material change in the valuation of the property portfolio. **Risk increasing** Although the required waivers are in place, this remains a critical risk with an increased focus required given the current economic climate.	• The Company maintains headroom against these risks. The finance team conducts daily cash forecasting with periodic reviews at the Treasury Committee, the role of which includes ensuring that the Board Treasury Policy is adhered to, monitoring its operation and agreeing appropriate strategies for recommendation to the Board. • In addition, regular forecasting and testing of covenant compliance is performed and frequent communication is maintained with the Securitisation Trustee. • Annual property valuation. • Detailed assessment of this is included in the long-term viability statement. • We have taken measures to protect the financial health of the business whilst operating at reduced capacity and continue to closely manage the cash position of the Group. • In June 2020, we agreed the waivers required to ensure we would remain compliant with all covenant requirements through an Extended Case (downside) scenario (in respect of both the securitisation and the unsecured facilities).	**Risk increasing** ↗
2. Material uncertainty 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. **Risk increasing** Please refer to the Going Concern disclosures on page 44.	• Please refer to the Going Concern disclosures on page 44.	**Risk increasing** ↗
3. Declining sales performance This risk falls into the below main categories: **Sales:** There is a risk that declining sales, concerns around consumer confidence, increased personal debt levels, squeezes on disposable income and rising inflation individually, together or in combination, may adversely affect our market share and profitability, reducing headroom against securitisation tests. Increased social distancing measures/requirements put in place may lead to further negative impact in sales/revenues. **Consumer and market insight:** If Mitchells & Butlers fails to manage and develop its existing (and new) brands in line with consumer needs and market trends due to failure to obtain or use sufficient insight in a timely manner, this may lead to a decline in revenues and profits. **Pricing and market changes:** If price changes are not intelligently applied due to a lack of appreciation of market sensitivities and elasticities, this may result in decreased revenue and profit.	• Right operational and commercial team and structure in place. Brand alignment ensures the right research is done and is acted upon. • Daily, weekly and periodic sales reporting, monitoring and scrutiny activity is in place. • During the period of disruption caused by the Covid-19 pandemic, a steering committee met at least weekly and more frequently as needed to ensure appropriately diligent supervision, monitoring and management of controls and risks. • Our Eat Drink Share panel provides robust, quick and cost-effective research. This is our own panel of 27,000 Mitchells & Butlers guests whom we can use for research purposes for quick and cost-effective insights. • Primary research in partnership with brand/category teams. • Working with suppliers to tap into their research. • Each brand has its own pricing strategy. • Price promotions are in line with the agreed strategy. • Sales training for Management. • Consumer/insight-led innovation process and development for new brands. • Reduce guest complaints by improving the local management of social media responses (e.g. TripAdvisor responses). • Increased digital marketing activity including new loyalty apps. • Increased activity from takeaway and delivery offerings.	**Risk increasing** ↗

RISK CATEGORY AND DESCRIPTION	CONTROLS/MITIGATING ACTIVITIES	MOVEMENT
3. Declining sales performance continued **Consumer behaviour as a result of Covid-19:** As pubs and restaurants reopen, consumers may have a different mindset to eating out, with health and safety at the forefront of priorities. Guests may want greater insight into practices, and food supply chain information to feel confident in their eating out experience. Equally some consumers may not heed the measures put in place to restrict the spread of the virus, potentially putting our team members and other guests at risk. **Risk increasing** Overall risk is increasing due to the decline of sales, as a direct impact of Government restrictions in response to the Covid-19 pandemic.	• Online guest satisfaction survey to collect guest feedback. This feedback, together with the results of research studies, is monitored and evaluated by a dedicated guest insight team to ensure that the relevance to guests of the Company's brands is maintained. • Our priority is to protect our team members and guests, providing an eating-out experience which can be enjoyed. We have very strong health and safety practices already in place in our businesses, which we will enhance and evolve to tackle the challenges we now face. We will be transparent with guests as to these measures such that they can trust in us and will clearly communicate our expectations of guests to comply with the measures put in place. • Measures are in place to ensure that the business responds to guest requirements after the pandemic. • Government financial assistance, such as furlough payments in respect of employee costs, business rates suspension and reduction of VAT, assisted to address the decline in revenue.	
4. People planning and development Mitchells & Butlers has a strong guest focus and so it is important that it is able to attract, retain, develop and motivate the best people with the right capabilities throughout the organisation. There is a risk that, without the right people, our customer service levels would be affected. The effects of Covid-19 have been assessed in terms of our overall people planning and development risks. Prior to Covid-19, the external pipeline for high potential talent, particularly in senior roles was tightening due to the rise in opportunity in a growing and competitive marketplace. However, post Covid-19, the external recruitment activity over the prior year has also shown that replacement talent is no more than average in terms of skills, behaviours and cultural fit. However, given the current economic climate and the anticipated high numbers of redundancies across UK employment in general, it is expected that this position may soften. We will therefore keep these new and emerging risks under review. **Risk increasing** There are a large number of EU workers within the Group, particularly in London and the South East. Therefore, the overall risk is increasing as the UK completes its transition period following the UK's departure from the EU. Restrictions on the movement of labour would have a material impact on both the cost of labour and access to talent.	• The Company makes significant investment in training to ensure that its people have the right skills to perform their jobs successfully. • Furthermore, an employee survey is conducted annually to establish employee satisfaction and engagement and this is compared with other companies, as well as previous surveys. Where appropriate, changes in working practices are made in response to the findings of these surveys. • Remuneration packages are benchmarked to ensure that they remain competitive and a talent review process is used to provide structured succession planning. • The apprenticeship programme will also assist in mitigating against the increasing risk in relation to EU workers. • A new talent management system has been sourced. • In compliance with the furlough scheme, we were able to continue employee training so that staff were fully trained on new ways of working for our reopening.	**Risk increasing** ↗ (Specifically in London/South East)

RISK CATEGORY AND DESCRIPTION	CONTROLS/MITIGATING ACTIVITIES	MOVEMENT
5. Business continuity and crisis management Mitchells & Butlers relies on its food and drink supply chain and the key IT systems underlying the business to serve its guests efficiently and effectively. Supply chain interruption, IT system failure or crises such as terrorist activity or the threat of a further disease pandemic might restrict sales or reduce operational effectiveness. Staff have the resources and ability to work remotely rather than rely on access to the Retail Support Centre.	• The Company has in place crisis and continuity plans that are tested and refreshed regularly. • The Company's third-party back-up facility, for Retail Support Centre employees, has been successfully tested to ensure critical business systems are able to function in the event of a disaster. Following Covid-19, new ways of working are in place for all Retail Support Centre staff when the office is temporarily closed to employees. Positively, all staff have the appropriate resources available to them in order to work remotely and in an efficient manner. • We have assessed risks associated with remote working and cyber-security and are confident that those areas are suitably controlled.	**Risk decreasing**
6. Information security and disaster recovery There is a risk that inadequate disaster recovery plans and information security processes are in place to mitigate against a system outage, or failure to ensure appropriate back-up facilities (covering key business systems and the recovery of critical data) and loss of sensitive data. Given the increase in the level and frequency of global cyber-attacks, the likelihood of occurrence is therefore increasing, although current IT controls and monitoring tools are robust. Risk of non-compliance with data protection laws is an increasing risk for the business to ensure full compliance remains up to date. **Risk increasing** The increased activity, information security and reliance on IT systems continues to be a key focus to ensure critical IT systems are kept secure and tested frequently and any vulnerabilities identified are closed out efficiently.	• A detailed external review of cyber security processes is performed on a regular basis in order to highlight any gaps and address any challenges. As a result, a number of further improvements have been made (and continue to be made) to address audit actions and strengthen overall cyber controls. • In addition, controls include: – The work carried out by the Group's cross-functional Information Security Steering Group. – Group Assurance IT controls reviews. – Implementation and revision of appropriate cyber security governance policies and procedures. – Ongoing security awareness initiatives continue to be undertaken. – A regular cycle of penetration testing. – An effective implementation of a business-wide data protection compliance programme, including training of all relevant employees and contractors. – Increased focus on protecting the business against potential cyber-attacks has resulted in the implementation of additional controls to mitigate against such risks. – Systems, processes and controls have been reviewed and updated to ensure compliance with data protection laws.	**Risk increasing**

RISK CATEGORY AND DESCRIPTION	CONTROLS/MITIGATING ACTIVITIES	MOVEMENT
7. Wage cost inflation There is a risk that increased costs associated with further increases to the National Living Wage may adversely impact upon overall operational costs. The overall impact of Covid-19, in relation to our wage cost inflation risk, has been assessed by management. It is unclear at this stage how Covid-19 may affect overall wage costs as we head into FY 2021. Therefore, this review will continue as part of our review of all emerging risks facing the business. **Risk increasing** Due to further increases set by Government, labour costs could continue to increase.	• A detailed review of the risks associated with the National Living Wage has been completed. This review has been undertaken at a strategic level and seeks to ensure that appropriate mitigating actions are in place, some of which are in relation to how the Group carefully manages productivity and efficiency across the estate. • We have successfully implemented a new Time and Attendance system to improve the management controls and reporting of staff hours.	**Risk increasing**
8. Pension fund deficit The material value of the pension fund deficit remains a risk.	• The Company has made significant additional contributions to reduce the funding deficit. In September 2019, the Company reached agreement on the triennial valuation of the Group pension schemes as at 31 March 2019, with a funding shortfall of £293m (March 2016 valuation: £451m shortfall). • The Company will continue to pay cash contributions (of £45m p.a. RPI indexed from 1 April 2016) to 2023, with an additional payment of £13m into escrow in 2024 should such further funding be required at that time. • During the period, the Company and the trustees of its defined benefit schemes agreed to a suspension of contributions for the period from April to September 2020, with such contributions being deferred to the end of the respective recovery periods.	**Risk decreasing**
9. Failure to operate safely and legally A major health and safety failure could lead to illness, injury or loss of life or significant damage to the Company's or a brand's reputation. Social distancing measures: we support the need for social distancing measures to reduce the spread of Covid-19. While social distancing measures are in place the capacity of our businesses will be reduced, impacting the offer to our guests and the financial model of our operations. Given the unknown nature of the virus the duration of distancing measures is uncertain. **Risk increasing** The overall risk is increasing mainly due to the additional measures enforced as a result of the Covid-19 pandemic. However, robust controls are in place.	• Mitchells & Butlers maintains a robust programme of health and safety checks both within its restaurants, pubs and bars and throughout the supply chain. • The dedicated Safety Assurance team uses a number of technical partners including food technologists, microbiologists and allergen specialists to ensure that our food procedures are safe. • Regular independent audits of trading sites are performed to ensure that procedures are followed and that appropriate standards are maintained. • If a business is identified as underperforming in terms of health and safety standards, it is immediately targeted for improvement. • The Company maintains two food safety Primary Authority relationships. These are held with Luton Borough Council (May 2019) and Shared Regulatory Services (November 2019) and provide assured advice on matters in England and Wales respectively. Westminster City Council continue to provide support on health and safety matters and Hampshire Fire Service for the provision of support and guidance on fire safety risks. • Food suppliers are required to meet the British Retail Consortium Global Standard for Food Safety and are subject to regular safety and quality audits. • Comprehensive health and safety training programmes are in place. • We have applied a risk assessment to each of our businesses and operate under the new Covid-19 guidelines. We have adapted the format and practices of our sites to ensure that the distancing guidelines provided by the Government can be adhered to, protecting both team members and guests. • We continuously review the latest Covid-19 guidelines and continue to adapt our businesses in response.	**Risk increasing**

RISK CATEGORY AND DESCRIPTION	CONTROLS/MITIGATING ACTIVITIES	MOVEMENT
10. Cost of goods – price increases **Food:** The cost of food for resale increases due to changes in demand, food legislation, exchange rates and/or production costs and uncertainty of supply, leading to decreased profits. **Drinks:** The cost of drinks for resale increases due to changes in demand, legislation, exchange rates and production costs, leading to decreased profits. **Goods not for resale**: Increases in the cost of goods not for resale and utilities costs as a result of increases in global demand and uncertainty of supply in producing nations can have a significant impact on the cost base, consequently impacting margins. **Brexit:** Given that a large amount of food spend is sourced from EU countries, the overall risk and impact of additional costs is higher. In addition, there is an increasing risk of sourcing certain products given the possibility of delays at ports following the end of the transition period following the UK leaving the EU. At the end of that transition period, the cost of goods may be impacted by changes in terms of trade and therefore tariffs, additional border controls and fluctuations in the value of sterling. **Risk increasing** The overall risk of price increases is increasing, largely due to the continued uncertainty around Brexit.	Overall, cost increases are mitigated as Mitchells & Butlers leverages its scale to drive competitive cost advantage and collaborates with suppliers to increase efficiencies in the supply chain. The fragmented nature of the food supply industry in the world commodity markets gives the Company the opportunity to source products from a number of alternative suppliers in order to drive down cost. Consideration has been given to potential areas such as supply chain risk (e.g. customs controls on imports), labour risk and economic disruption. Key mitigating activities for food and drink are detailed below: Food: • A Food Procurement Strategy is in place. • Full reviews are carried out on key categories to ensure optimum value is achieved in each category. • A full range review was completed in FY 2019 ensuring the correct number of products/suppliers. This is regularly reviewed. • Regular reporting of current and projected inflation. • Good relationships with key suppliers. Drinks: • Each drinks category has a clearly defined strategic sourcing plan to ensure Company scale is leveraged, the supply base is rationalised, and consumer needs are met. • Good relationships with key suppliers. • Supplier collaboration programmes are in place. • Plans are in place to mitigate Sugar Tax. **Brexit:** Brexit risks have remained a key focus and have been subject to continued regular review and development by management during FY 2020. Brexit risks and the mitigating action plans are embedded within each of the key risks, which are regularly reviewed by both 'risk owners' and the Risk Committee. A number of key measures have been taken to mitigate both the known and emerging risks that Brexit may present to the business. For example, we have secured agreements with our key suppliers which include: • buying ahead to mitigate the increasing risk of a lack of availability of products, upon the end of the transition period for the UK's departure from the EU. • Exploring the option to significantly upweight the existing Cattle Scheme in order to secure more UK beef. • Reviewing and update of key contracts to secure the most commercially effective supply of goods and pricing. • Identifying contingency markets for the alternative supply of food and drink, should it be required. • Strong commercial relationships with key suppliers which have assisted with securing an adequate supply of goods in the event of a disruption. **Covid-19** During the Covid-19 pandemic, suppliers have continued to remain very supportive and no material further supply chain associated risks have materialised.	**Risk increasing** ↗

RISK CATEGORY AND DESCRIPTION	CONTROLS/MITIGATING ACTIVITIES	MOVEMENT
11. Food supply chain safety Malicious or accidental contamination in the supply chain could lead to food goods for resale being unfit for human consumption or being dangerous to consume. This could lead to restrictions in supply which in turn cause an increase in cost of goods for resale and reduced sales due to consumer fears and physical harm to guests/employees. Allergens are becoming an increased risk within the industry. However, this is a well managed risk within the Group.	• Mitchells & Butlers has a Safety Assurance team and uses a number of technical partners including food technologists, food safety experts, microbiologists, allergy consultants, trading standards specialists and nutritionists. • Mitchells & Butlers uses a robust system of detailed product specifications. • All food products are risk rated using standard industry definitions and assessment of the way the products are used in Mitchells & Butlers' kitchens. Suppliers are then risk rated according to their products. • Each food supplier is audited at least once per annum in respect of safety and additionally in response to any serious food safety complaint or incident. • A robust response has been taken to manage allergens and the associated data within the menu cycle coupled with a continuous review in place to ensure controls remain appropriate.	**No movement** —
12. Health and lifestyle concerns Failure to respond to changing consumer expectations in relation to health and lifestyle choices and our responsibility to facilitate those. **Risk increasing** There is an increasing level of focus from media and Government on health and obesity issues, predominantly impacting the UK. This heightened consumer awareness has increased consumer awareness of the health implications of their eating and drinking choices and it is important that we continue to evolve our offers to facilitate consumers to make informed decisions. Failure to meet these expectations could have both a financial and reputational impact on the business. Therefore, this risk is increasing.	• We monitor changing behaviour in relation to health and lifestyle issues and adapt our brands to appeal to changing needs ensuring that the brands remain relevant and competitive. • We have set targets for ongoing sugar and salt reduction. • A plan is in place to provide nutritional information for all brands to allow customers to make informed decisions.	**Risk increasing** ↗
13. Environment and sustainability Climate change, biodiversity depletion and environmental pollution present a risk to our ability to source products, with food being particularly at risk. **Risk increasing** The impact of extreme and longer-term shifts in weather patterns, natural resource depletion and other effects of climate change could impact the business both financially and reputationally. These factors could disrupt our supply chain and the ability to source products due to reduced availability. Regulatory action to manage climate change could result in the introduction of additional taxes or restrictions being imposed. The business also has a responsibility to continually aim to reduce its usage of natural resources and its negative impact on the climate. Therefore, this risk continues to increase.	• We have set challenging targets in key areas such as greenhouse gas emissions, food waste, recycling and use of plastics (see page 18). • We have completed an exercise to determine our baseline greenhouse gas emissions from which we have developed a plan to deliver our ambitions of reducing emissions by 25% by 2030, which has been approved by the Board. • We are working with the World Resources Institute on their Cool Food Pledge programme to reduce the emissions of food supply chain links, which is a significant contributor to emissions globally. • All direct palm oil purchases are now from Rainforest Alliance approved suppliers. • We are working with industry collaboration groups to develop a roadmap to sourcing sustainable soy in our supply chain. • We are developing initiatives to reduce our consumption of natural resources, with an electricity workstream live in the business, and gas and water in the planning phases.	**Risk increasing** ↗

CORPORATE VIABILITY

In accordance with Provision 31 of the 2018 UK Corporate Governance Code, the Directors have undertaken an assessment, including sensitivity analysis, of the prospects of the Group for a period of three years to September 2023.

Assessment period

Consistent with the previous year, three years continues to be adopted as an appropriate period of assessment as it aligns with the Group's planning horizon in a fast moving market subject to changing consumer tastes in addition to economic and political uncertainties, and is supported by three year forecasts as approved by the Board. This period also aligns with the triennial process for pensions valuations, a key consideration in respect of future cash flows. Furthermore, beyond this period, performance is impacted by global macroeconomic and other considerations which become increasingly difficult to predict, a good example of which is the impact of the current Covid-19 pandemic.

Assessment of prospects

The Group's financial planning process comprises a detailed forecast for the next financial year, together with a projection for the following two financial years.

The Group's strategy provides long-term direction and aims to protect the viability of the business model given prevailing and evolving market and economic conditions. The Directors' assessment of longer-term prospects has been made taking account of the current and expected future financial position and the principal risks and uncertainties, as detailed within the Annual Report.

At the current time uncertainty facing the business is at an unprecedentedly high level. The principal source of this uncertainty is the Covid-19 pandemic and the consequential trading restrictions which have been, and are expected to continue to be, imposed on the business. This has inhibited the Group's ability to trade freely, thereby reducing sales and activity. Longer-term sources of uncertainty include prevailing cost headwinds such as wage inflation, evolving consumer demands and tastes and the economic and political environment.

Key factors considered in the assessment of the Group's prospects are a strong market position with a broad range of brands and offers trading from a well-positioned and largely freehold estate, supported by capital investment focused on premiumisation of offers and an appropriate remodel cycle, all contributing to historic outperformance against the wider market.

Assessment of viability

The current funding arrangements of the Group consist of £1.6bn of long-term securitised debt which amortises on a scheduled profile over the next 16 years. Covenants are tested quarterly, both on an annual and a half year basis, although as set out in the note to the accounts on Going Concern, a refinancing was undertaken during the year resulting in a number of waivers through to July and September 2021 being obtained. Unsecured committed facilities of £250m were also in place at the year end, having been increased and extended during the refinancing exercise. These facilities expire within the three year term of this assessment, in December 2021 and, at the current time, the Group has no reason to conclude that they will not be refinanced ahead of their expiry.

Given the significant impact of Covid-19 on the environment in which the Group is operating, the principal short-term risk facing the business comes from future restrictions imposed by Government in response to the pandemic, thereby inhibiting activity and sales income. The Group has reviewed a number of forecast scenarios and sensitivities around the depth, duration and recovery profile of the pandemic, including additional stress testing that has been carried out on the Group's ability to continue in operation under extremely unfavourable operating conditions. In assessing the impact of these, the Group has considered the impact of temporary Government support where such measures have already been announced – notably relief from business rates until April 2020, a reduction in the rate of VAT on selected products until March 2020, and the Job Retention Scheme, including some potential benefit similar to the Job Retention Scheme Bonus yet to be finalised by the Government following the extension of the Job Retention Scheme. Whilst the experience of Covid-19 is expected to lead to lasting changes in both customer behaviour and competition in the hospitality sector, in making this assessment the Group has taken the view that the material adverse impact of Covid-19 on sales, through trading restrictions, will be temporary in nature and should not extend to any material extent beyond 2021. In 2022 and 2023, the Group is forecasting sales growth of between nil and 3%.

The Group's three year plan takes account of the impact of Covid-19, in addition to the prevailing economic outlook, capital allocation decisions and significant cost headwinds that are expected to recur each year, alongside planned mitigating activity such as improved operational efficiencies (stock and labour management), improved digital marketing capability and energy efficiency to manage these costs. The resilience of this plan is assessed through the application of forecast analysis, including reverse stress test modelling, as detailed more extensively in the Going Concern note to the accounts, focused in particular on the impact of Covid-19 and Brexit in the current financial year as well as on a longer-term basis on sensitivities around the impact of the following risks described in the Annual Report:

- Declining Sales Performance (Risk 3) by 2% in 2021, 2022 and 2023;
- Cost of Goods – Price Increases (Risk 10) by 2% in 2021, 2022 and 2023;
- Wage Cost Inflation (Risk 7) by 2% in 2021, 2022 and 2023; and
- A scenario combining all of the above three sensitivities which reduces EBITDA by £31m, £45m and £46m in 2021, 2022 and 2023 respectively (2021 being a part year).

Liquidity and solvency based on financial covenants (Risk 1) on both secured debt and unsecured facilities are assessed in all scenarios based on the assumptions in relation to refinancing stated above. In all scenarios the Group continues to remain profitable with sufficient liquidity and no forecast unwaived covenant breaches, although a number of tests have negligible remaining headroom under the combined scenario.

Viability statement

The Directors have concluded, based upon the extent of the financial planning assessment, sensitivity analysis, potential mitigating actions and current financial position that there is a reasonable expectation that the Group will have sufficient resources to continue in operation and meet all its liabilities as they fall due over the three year period to September 2023. However, given the very high level of uncertainty around the extent and duration of current trading restrictions, and the material uncertainty highlighted in the going concern assessment, the viability of the business over the three year assessment period remains uncertain.

NON-FINANCIAL INFORMATION STATEMENT

The Group has complied with the requirements of s414CB of the Companies Act 2006 by including certain non-financial information within the report. This can be found as follows:

- Business model on pages 20 to 23.
- Information regarding the following matters can be found on the following pages:
  - Environmental matters on page 28;
  - Employees on page 26;
  - Social matters on pages 24 to 29;
  - Respect for human rights on pages 55 and 67;
  - Anti-corruption and anti-bribery matters on page 68.
- Where principal risks have been identified in relation to any of the matters listed above, these can be found on pages 32 to 38 including a description of the business relationships, products and services which are likely to cause adverse impacts in those areas of risk, and a description of how the principal risks are managed.

- All key performance indicators of the Group, including those non-financial indicators, are on pages 30 and 31.
- The Financial review section on pages 41 to 44 includes, where appropriate, references to, and additional explanations of, amounts included in the accounts.

SECTION 172 COMPANIES ACT STATEMENT

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

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

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

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

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

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

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

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

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

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

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

Specific consideration was given in the decision-making processes implemented by the Board to how the manner in which the Company operated, and the specific proposals it was asked to consider, aligned to its strategic goals as described on pages 16 and 17 and its agreed purpose as referred to on page 1.

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

Throughout this Annual Report we provide examples of how we take these considerations into account. The Board values the importance of effective stakeholder engagement and believes that stakeholders' views should be considered in its decision-making. Details of how we engage with various stakeholders can be found on pages 24 to 29.

Our financial and operating performance

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).

TIM JONES
Chief Financial Officer

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 5.3 to the financial statements.

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 benefited from the reduced VAT rates on certain supplies applied by the UK Government from 15 July 2020. Included within total revenue is £30m received from the Government in relation to the Eat Out to Help Out scheme.

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.

An £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%.

Like-for-like sales[a] growth:

	Weeks 1–24 FY 2020	Weeks 25–40 FY 2020	Weeks 41–44 FY 2020	Weeks 45–48 FY 2020	Weeks 49–52 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%.

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 IFRS 16 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 adjusted items, 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 have 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 valuation 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 IFRS 16, 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 on pages 104 and 105 of the financial statements.

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 policies. 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 2.2)
- property, plant and equipment (note 3.1)
- leases (note 3.2)
- pensions (note 4.5)

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.

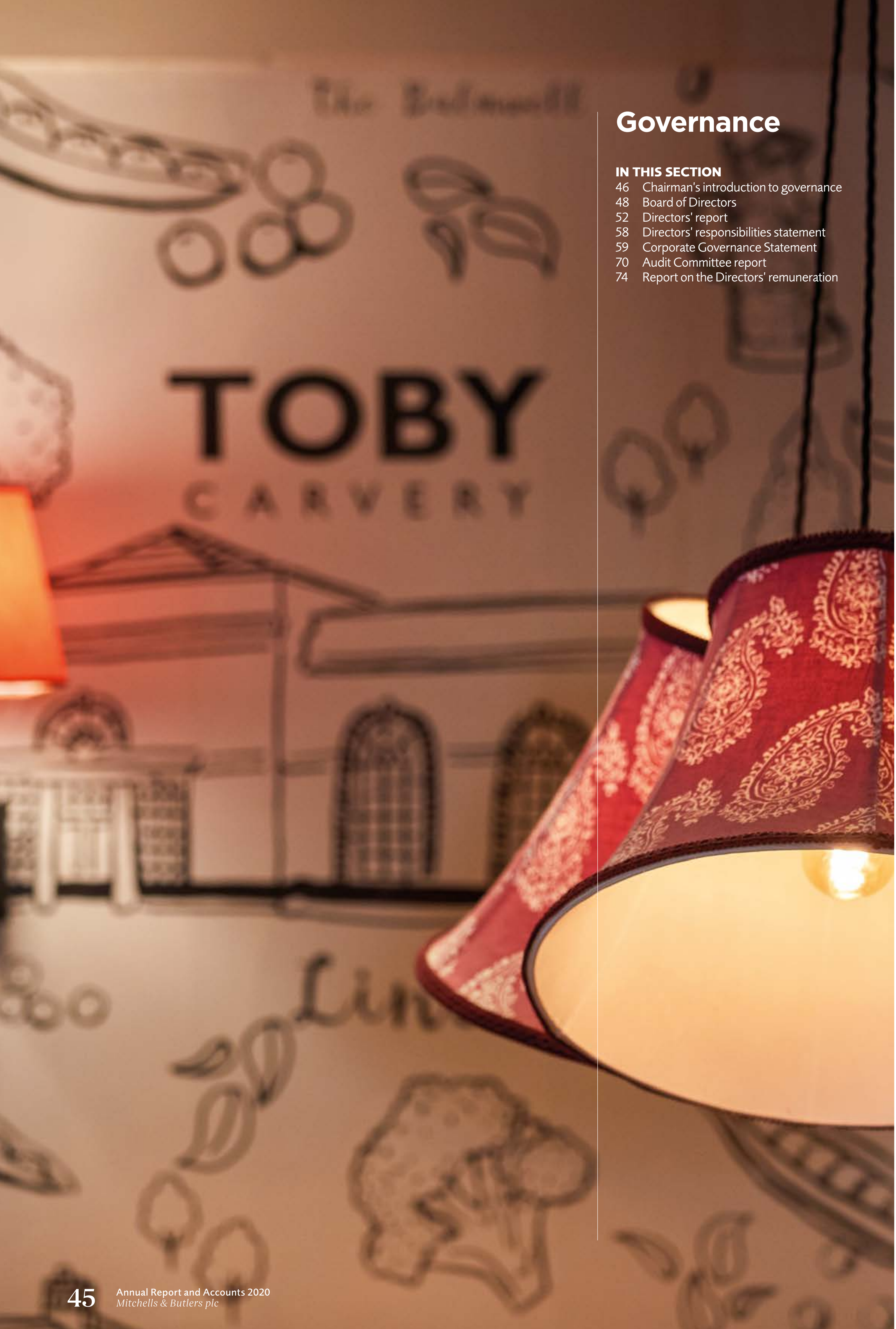
GOING CONCERN

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 on pages 104 and 105 of the financial statements.

TIM JONES
Chief Financial Officer

a. The Directors use a number of alternative performance measures (APMs) that are considered critical to aid the understanding of the Group's performance. Key measures are explained on pages 161 and 162 of this Report.



Governance

IN THIS SECTION

Dear fellow shareholder

I have pleasure in updating you on our progress in corporate governance over the past year.

During FY 2020, the Company had to deal with an unprecedented set of circumstances as Covid-19 impacted our business, the UK economy and the world. A full discussion of the adjustments made to our corporate strategy and the measures taken by the Board to mitigate the effects of Covid-19 on the business are given in the Chief Executive's business review on pages 10 to 12. The Corporate Governance Statement on pages 59 to 69 describes the existing governance arrangements already in place, with additional information where Covid-19 required changes to our usual practice.

As at 26 September 2020, the Company had more than 42,500 employees and one of the key roles for the Board is to provide leadership for them and maintain the highest possible standards of corporate governance.

In addition to Covid-19 considerations, one of the key changes from last year's report has been that the Company is now required to report under the 2018 UK Corporate Governance Code (the '2018 Code'), published in July 2018. For FY 2019 the Company was permitted to report under the previous Corporate Governance Code 2016 ('2016 Code'), but in the interests of good governance, the Board decided to report under both the 2016 Code and, to the extent it was able, the 2018 Code. A detailed review of the 2018 Code was therefore undertaken a year earlier than required, which had the advantage of highlighting any areas requiring attention before compliance became mandatory.

The 2018 Code places greater emphasis on relationships between companies, shareholders and stakeholders. It also promotes the importance of establishing a corporate culture that is aligned with the Company's purpose and business strategy, promotes integrity and values diversity. Some of these aspects of the 2018 Code are reflected in the Strategic report on pages 8 to 44, which sets out the Group's strategy, progress and performance for the year. Meanwhile, the effects of the corporate governance aspects of the 2018 Code are reflected in the Corporate Governance Statement on pages 59 to 69, which sets out the Company's compliance against published governance requirements.

During the year, the Board as a whole continued to work together to implement in a cohesive way the Company's published strategy, up until March 2020 when Covid-19 required a re-evaluation of the Company's priorities in the midst of a pandemic.

Our broad range of Board talent covers a variety of professional skills and our diverse group of Non-Executive Directors continue to bring much experience and challenge to the Board. My focus will continue to be on maintaining a strong team, with a broad range of professional backgrounds, experience from both within our sector and in other industries and businesses and communication skills to drive further improvements where possible. From a governance standpoint, and with the exception of Covid-19 emergency arrangements, most of the basic governance arrangements already in place are unchanged from FY 2019 and are replicated in this year's report, as the Board was very firm in its view that a stable Board was the highest priority in a time of crisis. Consequently, certain aspects of non-compliance with the 2018 Code could not be, and were not, addressed in FY 2020. These deviations from the 2018 Code are fully explained on page 63 within the Corporate Governance Statement.

The 2018 Code states that there should be a formal and rigorous annual evaluation of the performance of the board, its committees, the chair and individual directors and that the chair should consider having a regular externally facilitated board evaluation. In FTSE 350 companies this should happen at least every three years. An externally facilitated review of the Board's effectiveness took place in 2018 and the results were published in the 2018 Annual Report and Accounts, with the next externally facilitated review being due for reporting in the 2021 Annual Report and Accounts. For the 2020 Annual Report and Accounts, the evaluation of the Chairman's performance was undertaken by the Senior Independent Director in dialogue with the whole Board (other than the Chairman). Also, in FY 2020, the Company undertook an internal Board effectiveness review which was led by the Chairman, with support from the Company Secretary and General Counsel, and the results of this are given on page 69 of this report.

The remainder of this Corporate Governance Statement contains the narrative reporting required by the 2018 Code, the Listing Rules and the Disclosure Guidance and Transparency Rules. I hope that you find this Corporate Governance Statement to be informative and helpful in relation to this important topic.

We are committed to maintaining an active dialogue with all our shareholders, and we continue to offer our institutional investors access to key senior management and our Investor Relations team (normally via our Investor Roadshow programme which has necessarily been more limited during lockdown restrictions).

The Annual General Meeting will be held in March 2021. The arrangements for holding the AGM will depend on Covid-19 restrictions likely to be in force at the time and will be set out in detail in a separate Notice of AGM, which will be despatched in February 2021.

I look forward to the year ahead, confident in the knowledge that the Company is led by a highly competent, professional and motivated team. I also look forward to the support of you, our shareholders, as our senior management team looks to re-build the business with appropriate regard to the Covid-19 restrictions and continues to focus on driving future profit growth and creating additional shareholder value.

BOB IVELL
Chairman
Mitchells & Butlers plc

For the Company's latest financial information
Go to www.mbplc.com/investors

A strong leadership team

BOB IVELL
Non-Executive Chairman
R,N,M,C,P

Appointed to the Board in May 2011, Bob has over 40 years of extensive food and beverage experience with a particular focus on food-led, managed restaurants, pubs and hotels. He is currently a Non-Executive Director of Charles Wells Limited and a Board member of UK Hospitality. He was previously Senior Independent Director of AGA Rangemaster Group plc and Britvic plc, and a main Board Director of S&N plc as Chairman and Managing Director of its Scottish & Newcastle retail division. He has also been Chairman of Carpetright plc, Regent Inns, Park Resorts and David Lloyd Leisure Limited, and was Managing Director of Beefeater Restaurants, one of Whitbread's pub restaurant brands, and a Director of The Restaurant Group. Bob is Chair of the Nomination Committee, the Pensions Committee, the Market Disclosure Committee and the Corporate Responsibility Committee.

PHIL URBAN
Chief Executive
M,E,P

Phil joined Mitchells & Butlers in January 2015 as Chief Operating Officer and became Chief Executive in September 2015. Phil was previously Managing Director at Grosvenor Casinos, a division of Rank Group and Chairman of the National Casino Forum. Prior to that, he was Managing Director for Whitbread's Pub Restaurant Division, and for Scottish & Newcastle Retail's Restaurants and Accommodation Division. Phil has an MBA and is a qualified management accountant (CIMA).

TIM JONES
Chief Financial Officer
M,E,P

Tim was appointed Chief Financial Officer in October 2010. Prior to joining the Company, he held the position of Group Finance Director for Interserve plc, a support services group. Previously, he was Director of Financial Operations at Novar plc and held senior financial roles both in the UK and overseas in the logistics company, Exel plc. Tim is a member of the Institute of Chartered Accountants in England and Wales and obtained an MA in Economics at Cambridge University.

KEY TO COMMITTEE MEMBERSHIP
A Audit Committee
R Remuneration Committee
N Nomination Committee
M Market Disclosure Committee
E Executive Committee
C Corporate Responsibility Committee
P Pensions Committee

KEITH BROWNE
Non-Executive Director
P

Appointed as a Non-Executive Director in September 2016, Keith is a nominated shareholder representative of Elpida Group Limited, a significant shareholder in Mitchells & Butlers. He is a Non-Executive Director of Grove Limited, the holding company of Barchester Healthcare Limited. Keith obtained a Bachelor of Commerce Degree from University College Dublin, qualified as a chartered accountant in 1994 and subsequently gained an MBA from University College Dublin. After joining KPMG Corporate Finance in 1996, he became a partner in the firm in 2001 and Head of Corporate Finance in 2009. He retired from the partnership to operate as an Independent Consultant in 2011.

DAVE COPLIN
Independent Non-Executive Director
A,R,N,C

Appointed as an independent Non-Executive Director in February 2016, Dave is the CEO and founder of The Envisioners Limited, he was formerly the Chief Envisioning Officer for Microsoft Limited, and is an established thought leader on the role of technology in our personal and professional lives. For over 25 years he has worked across a range of industries and customer marketplaces, providing strategic advice and guidance around the role and optimisation of technology in the modern society both inside and outside of the world of work. Dave is also a Non-Executive Director of the Pensions and Lifetime Savings Association as well as Vianet Group plc.

EDDIE IRWIN
Non-Executive Director
A,R,N,C

Appointed as a Non-Executive Director in March 2012, Eddie is a nominated shareholder representative of Elpida Group Limited, a significant shareholder in Mitchells & Butlers. Eddie is Finance Director of Coolmore, a leading thoroughbred bloodstock breeder with operations in Ireland, the USA and Australia and a Non-Executive Director of Grove Limited, the holding company of Barchester Healthcare Limited. He graduated from University College Dublin with a Bachelor of Commerce Degree and he is a Fellow of both The Association of Chartered Certified Accountants and The Chartered Governance Institute.

JOSH LEVY
Non-Executive Director
R,P

Appointed as a Non-Executive Director in November 2015, Josh is a nominated shareholder representative of Piedmont Inc., a significant shareholder in Mitchells & Butlers. Josh is Chief Executive of Ultimate Finance Group, Chairman of Avenue Insurance and a Director of Tavistock Group. Josh previously worked in the Investment Banking Division of Investec Bank and holds an MSc and a BA (Hons) from the University of Nottingham.

JANE MORIARTY
Independent Non-Executive Director
A,R,N,C

Appointed as an independent Non-Executive Director in February 2019, Jane is a Fellow of the Institute of Chartered Accountants in Ireland, and currently a Director of NG Bailey Group Limited, Quarto Group Inc., Martin's Investments Limited and Nyrstar NV. Jane was previously a senior advisory partner with KPMG LLP.

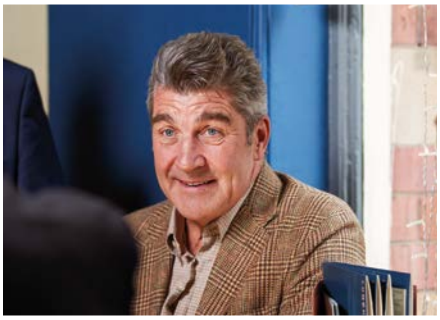
SUSAN MURRAY
Senior Independent Director
A,R,N,C

Appointed as Senior Independent Director in March 2019, Susan has served on the boards of Compass Group plc, Pernod Ricard SA, Imperial Brands plc, Wm Morrison Supermarkets plc and EI Group plc and is a former Council Member of the Advertising Standards Authority. She is currently a Non-Executive Director, and Chair of the Remuneration Committee of Hays plc and Grafton Group plc, and a member of the supervisory board of William Grant & Sons Holdings Limited. In her executive career, amongst other roles, Susan was Director of International Marketing of Grand Metropolitan's IDV business, Worldwide President and Chief Executive of Smirnoff's vodka business and subsequently Chief Executive of Littlewoods.

KEY TO COMMITTEE MEMBERSHIP
A Audit Committee
R Remuneration Committee
N Nomination Committee
M Market Disclosure Committee
E Executive Committee
C Corporate Responsibility Committee
P Pensions Committee

RON ROBSON
Deputy Chairman
A,N,C

Appointed as Deputy Chairman in July 2011, Ron is a Non-Executive Director of Tottenham Hotspur Limited and an executive director of Clyde Munro Group Limited. Ron was previously Chief Financial Officer of Tamar Capital Partners and Group Finance Director of Kenmore, both property investment and management groups. From 2005 to 2008 he was Group Finance Director of The Belhaven Group plc, a listed pub retailing, brewing and drink distribution group. Prior to that Ron held a number of senior finance roles including Group Finance Director of a listed shipping and logistics group, and trained as a Chartered Accountant with Arthur Andersen. Ron is a nominated shareholder representative of Piedmont Inc.



COLIN RUTHERFORD
Independent Non-Executive Director
A,R,N,M,C,P

Appointed as an independent Non-Executive Director in April 2013, Colin is also an independent Non-Executive Director of NewRiver REIT plc and US based Evofem Biosciences Inc, amongst his other activities. For over 30 years Colin has served as Chairman, Director or Corporate Adviser to various other public and private companies in the UK and overseas, and he has directly relevant experience in the hospitality and leisure sector. He has been a member of the Institute of Chartered Accountants of Scotland since 1983. Colin is Chairman of the Audit Committee and serves on all other independent governance committees.

IMELDA WALSH
Independent Non-Executive Director
A,R,N,C,P

Appointed as an independent Non-Executive Director in April 2013. Imelda was a Non-Executive Director, and Chair of the Remuneration Committee, of Aston Martin Lagonda Global Holdings plc from 2018 to 2020, FirstGroup plc from 2014 to 2020, William Hill plc from 2011 to 2018, Mothercare plc from 2013 to 2016 and Sainsbury's Bank plc from 2006 to 2010. Imelda has held senior Executive roles at J Sainsbury plc, where she was Group HR Director from March 2004 to July 2010, Barclays Bank plc and Coca-Cola & Schweppes Beverages Limited. Imelda is Chair of the Remuneration Committee.

THE BOARD'S RESPONSIBILITIES IN RESPECT OF THE COMPANY INCLUDE:

- Determining the overall business and commercial strategy
- Identifying the Company's long-term objectives
- Reviewing the annual operating budget and financial plans and monitoring performance in relation to those plans
- Determining the basis of the allocation of capital
- Considering all policy matters relating to the Company's activities including any major change of policy

For FY 2020, the Board is reporting under the 2018 Code. Further information is set out in the Strategic report which examines the 'purpose' aspect of the 2018 Code and in the Corporate Governance Statement, which describes the Company's culture and practices in relation to the 2018 Code.

For the Company's latest financial information

Go to www.mbplc.com/investors

The Directors present their report on the affairs of the Group and the audited financial statements for the 52 weeks ended 26 September 2020. The Business review and Sustainability review of the Company and its subsidiaries are given on pages 10 to 12 and pages 18 to 19 respectively which, together with the Corporate Governance Statement and Audit Committee report, are incorporated by reference into this report and, accordingly, should be read as part of this report.

Details of the Group's policy on addressing risks are given on pages 32 to 38 and 68 to 69, and details about financial instruments are shown in note 4.4 to the financial statements. These sections include information about trends and factors likely to affect the future development and performance of the Group's businesses. The Company undertakes no obligation to update forward-looking statements.

Key performance indicators for the Group's businesses are set out on pages 30 and 31.

The Company's Directors pay due regard to the need to foster the Company's business relationships with suppliers, guests and others. Details of the Company's engagement process with various stakeholders and different tiers of suppliers, together with the effect of that regard on the principal decisions taken by the Company during the financial year, are set out in the section discussing the Company's business model on pages 20 to 23.

This report has been prepared under current legislation and guidance in force at the year end date. In addition, the material contained on pages 8 to 44 reflects the Directors' understanding of the requirement to provide a Strategic report.

This report has been prepared for, and only for, the members of the Company as a body, and no other persons. The Company, its Directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come or who becomes aware of it and any such responsibility or liability is expressly disclaimed.

AREAS OF OPERATION

During FY 2020 the Group had activities in, and operated through, pubs, bars and restaurants in the United Kingdom and Germany, until 20 March 2020 when the UK Government announced a directive to close all pubs and restaurants with immediate effect as part of measures to control the spread of Covid-19. A similar order had been made in Germany on 16 March 2020. Our businesses in Germany started to reopen in mid-May 2020 and, following guidance from the UK Government and the Northern Ireland Assembly, our businesses started to open in England and Northern Ireland on 4 July 2020 followed by our businesses in Wales and Scotland starting to reopen from 13 July 2020 and 15 July 2020 following guidance from the Welsh and Scottish Governments respectively.

A full list of the Company's subsidiaries and their respective country of operation is given on page 151 of the Annual Report.

SHARE CAPITAL AND VOTING RIGHTS

The Company's issued ordinary share capital as at 26 September 2020 comprised a single class of ordinary shares of which 429,201,117 shares were in issue and listed on the London Stock Exchange (28 September 2019 428,577,760 shares). The rights and obligations attaching to the ordinary shares of the Company are contained within the Company's Articles of Association.

Of the issued share capital, no shares were held in treasury and the Company's employee share trusts held 2,487,431 shares. Details of movements in the issued share capital can be found in note 4.7 to the financial statements on page 148.

Each share carries the right to one vote at general meetings of the Company. The notice of the Annual General Meeting will specify deadlines for exercising voting rights in relation to the resolutions to be proposed at the Annual General Meeting.

All issued shares are fully paid up and carry no additional obligations or special rights. There are no restrictions on transfers of shares in the Company, or on the exercise of voting rights attached to them, other than those which may from time to time be applicable under existing laws and regulations and under the Articles of Association. In addition, pursuant to the Listing Rules of the Financial Conduct Authority, Directors and certain officers and employees of the Group require the prior approval of the Company to deal in the ordinary shares of the Company.

Participants in the Share Incentive Plan ('SIP') may complete a Form of Instruction which is used by Equiniti Share Plan Trustees Limited, the SIP Trustee, as the basis for voting on their behalf.

During the year, shares with a nominal value of £53,245 were allotted under all-employee schemes as permitted under Section 549 of the Companies Act 2006. No securities were issued in connection with a rights issue during the year.

The Company is not aware of any agreements between shareholders that restrict the transfer of shares or voting rights attached to the shares.

Interests of the Directors and their immediate families in the issued share capital of the Company as at the year end are on page 85 in the Report on the Directors' remuneration.

DIVIDENDS

No Final Dividend will be paid in respect of the financial year ended 26 September 2020 (FY 2019 nil). No Interim Dividend was paid during the year (FY 2019 nil). On 12 June 2020, the Company announced that following agreement on a number of new financing arrangements which provide a platform of both additional liquidity and improved financial flexibility for the Group in order to meet the challenge presented by Covid-19, 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.

INTERESTS IN VOTING RIGHTS

As at 26 September 2020, the Company was aware of the significant holdings of voting rights (3% or more) in its shares shown in Table 1 below.

Table 1: Interests in voting rights as at 26 September 2020

Shareholder	Ordinary shares	% of share capital*	
Piedmont Inc.	116,234,517	27.08	Direct holding
Elpida Group Limited	100,840,659	23.49	Direct holding
Smoothfield Holding Limited	19,021,589	4.43	Direct holding

* Based on the total voting rights figure as at 26 September 2020 of 429,201,117 shares.

The following changes took place between 27 September 2020 and 25 November 2020:

- Standard Life Aberdeen plc notified the Company on 29 October 2020 that its indirect holding was 21,499,735 shares (5.01%); on 9 November 2020 that its indirect holding was 23,638,014 shares (5.51%) and on 23 November 2020 that its indirect holding was 24,398,876 shares (5.68%).

DIRECTORS

Details of the Directors as at 25 November 2020 and their biographies are shown on pages 48 to 51. The Directors as at 26 September 2020 and their interests in shares are shown on page 85.

There were no changes to the Board of Directors during the period nor subsequent to the period end, up to the date of this report.

The Company is governed by its Articles of Association and the Companies Act 2006 and related legislation in relation to the appointment and removal of Directors. The powers of the Company's Directors are set out in the Company's Articles of Association.

In accordance with the Company's Articles of Association (which are in line with the best practice guidance of the 2018 Code) all the Directors will retire at the Annual General Meeting and will offer themselves for re-election.

MAJOR SHAREHOLDER BOARD REPRESENTATION

The Board maintains excellent relations with its two major shareholders, whose investment objectives are fully aligned with those of the Group and of other shareholders. These two major shareholders maintain a dialogue via their representatives on the Board, all of whom are careful to ensure that there is no conflict between their roles as representatives of shareholders and their duty to the Board. The two largest shareholders have continued to be very supportive of the Board throughout the period of significant disruption caused by the impact of the Covid-19 pandemic on the Group's activities and as the Group has sought to re-establish its normal operating and trading pattern.

The Company's two largest shareholders, Piedmont Inc. and Elpida Group Limited, have nominated representatives on the Board. Piedmont's appointment rights are formalised in the Deed of Appointment referred to in this report but there is no equivalent agreement in place between the Company and Elpida. The Elpida representatives were appointed with the approval of the Board in March 2012 and September 2016. The Board has carefully considered whether it would be appropriate to enter into a formal agreement with Elpida that is similar to the existing agreement between the Company and Piedmont. Having taken into account the Financial Reporting Council's report of August 2014 'Towards Clear & Concise Reporting' and the views expressed previously by certain investor representative bodies, the Board considers that such an agreement would be merely one of form rather than substance and not in the interests of shareholders generally. As a result, the Board does not propose currently that the Company should enter into such an agreement with Elpida, and Elpida has not, to date, sought such an agreement.

Under a Deed of Appointment between Piedmont Inc. and the Company, Piedmont Inc. has the right to appoint two shareholder Directors to the Board whilst it owns 22% or more of the issued share capital of the Company, and the right to appoint one shareholder Director to the Board whilst it owns more than 16% of the Company but less than 22%. In the event that Piedmont Inc. owns less than 16% of the Company any such shareholder Directors would be required to resign immediately. That Deed of Appointment also entitles Piedmont Inc. to appoint one Director to sit on the Nomination Committee and to have a Director attend, and receive all the papers relating to, meetings of the Remuneration Committee.

DIRECTORS' INDEMNITY

As permitted by the Articles of Association, each of the Directors has the benefit of an indemnity, which is a qualifying third-party indemnity as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the tenure of each Director during the period, and is currently in force. The Company also purchased and maintained throughout the period Directors' and Officers' liability insurance in respect of itself and its Directors and the directors of any subsidiary of the Company. No indemnity is provided for the Company's auditor.

ARTICLES OF ASSOCIATION

The Articles of Association may be amended by special resolution of the shareholders of the Company.

CONFLICTS OF INTEREST

The Company's Articles of Association permit the Board to consider and, if it sees fit, authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Company ('Situational Conflicts'). The Board has a formal system in place for Directors to declare Situational Conflicts to be considered for authorisation by those Directors who have no interest in the matter being considered. In deciding whether to authorise a Situational Conflict, the non-conflicted Directors are required to act in the way they consider would be most likely to promote the success of the Company for the benefit of all shareholders, and they may impose limits or conditions when giving authorisation, or subsequently, if they think this is appropriate. The Board believes that the systems it has in place for reporting and considering Situational Conflicts continue to operate effectively.

RELATED PARTY TRANSACTIONS

Internal controls are in place to ensure that any related party transactions involving Directors or their connected persons are carried out on an arm's-length basis and are properly recorded.

There were no related party transactions in FY 2020.

CHANGE OF CONTROL PROVISIONS

There are no significant agreements which contain provisions entitling other parties to such agreements to exercise termination or other rights in the event of a change of control of the Company.

There are no provisions in the Directors' or employees' service agreements providing for compensation for loss of office or employment occurring because of a takeover.

The trustee of the Company's SIP will invite participants on whose behalf it holds shares to direct it how to vote in respect of those shares, and, if there is an offer for the shares or other transaction which would lead to a change of control of the Company, participants may direct it to accept the offer or agree to the transaction. The trustee of the Mitchells & Butlers Employee Benefit Trust may, having consulted with the Company, vote or abstain from voting in respect of any shares it holds or accept or reject an offer relating to shares in any way it sees fit, and it may take all or any of the following matters into account: the long-term interests of beneficiaries; the non-financial interests of beneficiaries; the interests of beneficiaries in their capacity as employees or former employees; the interests of future beneficiaries; and considerations of a local, moral, ethical, environmental or social nature.

The rules of certain of the Company's share plans include provisions which apply in the event of a takeover or reconstruction, as set out in Table 2 below.

Table 2: Provisions which apply in the event of a takeover or reconstruction

Share plan	Provision in the event of a takeover
2013 Performance Restricted Share Plan	Awards vest pro rata to performance and time elapsed and lapse six months later
2013 Short Term Deferred Incentive Plan	Bonus shares may be released or exchanged for shares in the new controlling company
2013 Sharesave Plan	Options may be exercised within six months of a change of control
Share Incentive Plan	Free shares may be released or exchanged for shares in the new controlling company

EMPLOYMENT POLICIES

The Group employed an average of 44,466 people in FY 2020 (FY 2019 45,560). Through its diversity policy, the Company seeks to ensure that every employee, without exception, is treated equally and fairly and that all employees are aware of their responsibilities.

Our policies and procedures fully support our disabled colleagues. We take active measures to do so via:

- a robust reasonable adjustment policy;
- disability-specific online resources (accessible via the Group's online recruitment system); and
- processes to ensure colleagues are fully supported.

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

EMPLOYEE ENGAGEMENT

Details of how the Company addressed employee engagement and wellbeing issues, along with workplace arrangements, arising from the disruption caused in FY 2020 by the Covid-19 pandemic are set out in the summary of Covid-19 responses on pages 59 to 61.

Mitchells & Butlers engages with its employees on a regular basis and in a number of ways to suit their different working patterns. This includes:

- line manager briefings;
- communications forums and roadshows held by functions or brands across the Company;
- a dedicated intranet for the Retail Support Team;
- 'Mable', the Mitchells & Butlers online learning platform;
- email news alerts;
- focus groups;
- weekly bulletins – specifically targeted at retail house managers and mobile workers;
- employee social media groups; and
- a monthly magazine poster, Frontline News, for the retail estate.

Details of the financial and economic factors affecting the performance of the Company are shared with all employees at the appropriate time using the methods listed above. In line with the requirements of the 2018 Code, the Board agreed that Dave Coplin will act as a link to the Board for employees in order to strengthen the 'employee voice' at the Board. This involves attending employee forums, focus groups and Company awards and providing feedback on values and behaviours, employee development and upskilling and ensuring that feedback is listened to and acted upon where appropriate.

We provide opportunities for employees to give their feedback to the Company in a number of ways, from team or shift meetings in restaurants, bars and pubs and engagement surveys for all employees to the Mitchells & Butlers Business Forum. Business Forum representatives collect questions from employees across the Company and put them to members of the Executive Committee. The questions and answers are published in Frontline News and online.

The Company's online learning platform, Mable, has become well embedded since its launch in 2017, with circa 23,000 logins per month and close to 900,000 course completions every year. Having also developed our own in-house digital design team, we are now able to create effective, engaging learner content very cost effectively. In parallel, this has proved extremely helpful during the Covid-19 lockdowns, with colleagues able to continue to grow their skills, and allowing us to roll out Covid-19 secure training very efficiently and effectively.

Mitchells & Butlers is keen to encourage greater employee involvement in the Group's performance through share ownership. It operates two HMRC approved all-employee plans, which are the 2013 Sharesave Plan and the Share Incentive Plan (which includes Partnership shares). Further details on the plans are set out in the Report on Directors' remuneration. These plans were temporarily suspended during FY 2020 due to over 99% of the Company's workforce being furloughed during the launch window.

The Company also operates two other plans on a selective basis, which are the 2013 Performance Restricted Share Plan and the 2013 Short Term Deferred Incentive Plan.

During the year, the Company has remained within its headroom limits for the issue of new shares for share plans as set out in the rules of the above plans. The Company uses an employee benefit trust to acquire shares in the market when appropriate to satisfy share awards in order to manage headroom under the plan rules. A total of 750,000 shares in the Company were purchased by the employee benefit trust during FY 2020.

RESPONSIBLE ALCOHOL POLICY

Mitchells & Butlers operates the Challenge 21 policy in all our businesses across England and Wales, a Challenge 25 policy in our Scottish businesses and similar policies in Northern Ireland and Germany. The policy requires that any guest attempting to buy alcohol who appears under the age of 21 in England, Wales or Northern Ireland (or 25 in Scotland) must provide an acceptable form of proof of age ID to confirm that they are over 18 before they can be served. We employ similar policies across the various regions of Germany in order to comply with local laws.

All of these policies form part of our regular training for our employees on their responsibilities for serving alcohol.

POLITICAL DONATIONS

The Company made no political donations during the year and intends to maintain its policy of not making such payments. It will, however, as a precautionary measure to avoid inadvertent breach of the law, seek shareholder authority at its 2021 AGM to make limited donations or incur limited political expenditure, although it has no intention of using the authority.

MODERN SLAVERY ACT 2015

In accordance with the requirements of the Modern Slavery Act, during the period the Board reviewed, updated and approved the Company's Modern Slavery Act compliance statement, which was signed on behalf of the Board by Phil Urban. A copy of that statement can be accessed on the Company's website, www.mbplc.com

This statement covers the Company's commitment to operating and conducting its business in such a way that human rights are respected and protected. Mitchells & Butlers will not permit or condone any form of slavery, servitude, forced or compulsory labour or human trafficking. It clearly states how the Company is committed to ensuring that there is no modern slavery or human trafficking in its supply chains or in any part of its businesses and this is reflected in the Mitchells & Butlers Modern Slavery & Human Trafficking Policy and Supplier Code of Conduct. The statement also covers due diligence processes for slavery and human trafficking, supply chain accountability, Company accountability including ethical and socially responsible conduct in the workplace, training and information and reviewing key performance indicators to measure how effective we have been to ensure that slavery and human trafficking is not taking place in any part of our business and supply chain, in terms of record keeping and actions taken to strengthen supply chain due diligence, auditing and verification.

ANNUAL GENERAL MEETING

The notice convening the Annual General Meeting will be contained in a circular to be sent to shareholders in the early part of 2021 and will include full details of the resolutions proposed.

AUDITOR

Deloitte LLP has expressed its willingness to continue in office as auditor of the Company and its reappointment will be put to shareholders at the AGM.

FUNDING AND LIQUIDITY RISK

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

The current funding arrangements of the Group consist of the securitised notes issued by Mitchells & Butlers Finance plc (and associated liquidity facility) and £250m of unsecured committed bank facilities (increased by £100m during the year as a result of the Covid-19 pandemic). Further information regarding these arrangements is set out on page 44 and is also included in note 4.2 to the financial statements on page 133. The terms of the securitisation and the bank facilities contain a number of financial and operational covenants. Compliance with these covenants is monitored by Group Treasury. As set out on page 39 (Assessment of viability) and the note to the financial statements on Going Concern, as part of the refinancing arrangements entered into during FY 2020 a number of waivers and amendments were agreed, as described on page 104.

The Group prepares a rolling daily cash forecast covering a six week period, a fortnightly update on six month forward-looking cash forecasts and an annual cash forecast by period. These forecasts are reviewed and used to manage the investment and borrowing requirements of the Group. A combination of cash pooling and zero balancing agreements is in place to ensure the optimum liquidity position is maintained. Committed facilities outside of the securitisation are sized to ensure that the Group can meet its medium-term anticipated cash flow requirements. Short-term cash management is optimised through regular discussions considering projected cash inflows and outflows.

GOING CONCERN

The financial statements which appear on pages 90 to 160 have been prepared on a going concern basis. The Directors have reviewed the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk. The Directors have also assessed the impact of the possible adverse impact on financial performance, specifically revenue and cash flows, of restrictions imposed by Government in response to the outbreak of Covid-19. The Group's financing is based on securitised debt and unsecured bank facilities and, within this context, a robust review has been undertaken of projected performance against all financial covenants. 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. 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 go out and, therefore, the Group's operational performance translating to sales and EBITDA that determine the Group's covenant compliance. 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 a period of at least twelve months from the date of approval of the financial statements. Accordingly, the financial statements continue to be prepared on the going concern basis. See section 1 of the financial statements on page 104 for the Company's going concern statement, and page 39 for the Company's long-term viability statement.

MATERIAL VALUATION UNCERTAINTY

The effects of the Covid-19 pandemic have 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 valuation 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).

EVENTS AFTER THE BALANCE SHEET DATE

The post-balance sheet date events are referred to at note 5.4 of the Group's financial statements on page 153.

GREENHOUSE GAS ('GHG') EMISSIONS STATEMENT

The Group generates GHG emissions throughout its estate of bars and restaurants for heating, cooling, lighting and catering including the refrigeration and preparation of food and drink.

GHG emissions per £m turnover have increased by 4.9% primarily due to the impact of Covid-19 on our turnover. This has negatively impacted our intensity ratio.

The following information in relation to Mitchells & Butlers' carbon reporting disclosure was prepared by SMS plc, who offer a range of environmental and energy consultancy services aimed at reducing consumption and lowering our carbon footprint.

Assessment parameters

Assessment year	FY 2020
Consolidation approach	Financial control
Boundary summary	All bars and restaurants either owned or under operational control during FY 2020 were included.
Scope	General classifications of greenhouse gas emissions scopes based on the GHG protocol and ISO14064-1:2006 within the context of the Group's operations are as follows: **Scope 1** – direct greenhouse gas emissions from sources that are owned or controlled by the Group, e.g. fuel combustion of varying types occurs during kitchen activity and to generate heating and domestic hot water most commonly through natural grid supplied gas, but also some LPG (Liquefied Petroleum Gas) and oil. Real fires fuelled by logs or coal are also used to supplement customer comfort and enhance ambience. **Scope 2** – GHG emissions from the generation of purchased electricity used during kitchen activity and for lighting, heating and cooling. **Scope 3** – indirect emissions as a consequence of the activities of the Group but occurring from sources not owned or controlled by the Group. This assessment focuses on scope 1 and 2 emissions only (scope 3 is optional under the current regulations).
Consistency with the financial statements	Scope 1 and 2 emissions are reported for FY 2020 whereas 2018/19 data is reported under the tax year. Going forward all reporting is intended to align with Mitchells & Butlers' financial year, in line with good practice. Franchise sites are excluded as they are responsible for arranging and paying for their own energy. Alex sites in Germany are included. Emissions are based on UK average emissions multiplied by the number of Alex sites. These sites make up the non-UK aspect of this report.
Exclusions	**Scope 1** – Wood, coal and charcoal are excluded because collectively they amount to less than 1% of total emissions which falls below the materiality threshold.
Emission factor data source	All carbon emission factors used are sourced from the UK Government's 'Greenhouse gas reporting: conversion factors 2020'.
Assessment methodology	Environmental Reporting Guidelines: including Streamlined Energy and Carbon Reporting Guidelines March 2019.
Materiality threshold	All emission types estimated to contribute >1% of total emissions are included.
Estimation	Scope 1 – Fugitive Emissions are estimated on the basis of industry benchmarking.
Intensity threshold	Emissions are stated in tonnes CO_2e per £m revenue. This intensity ratio puts emissions into context given the scale of the Group's activities and enables comparison with prior year performance.
Target	Emissions during the 2018/19 tax year are provided for comparative purposes. It should be noted that this year's reporting is based on FY 2020 as part of a move towards best practice and will be reported by reference to financial years in the future.

Energy efficiency action taken
At the beginning of our financial year we undertook a proof of concept project to engage with staff on measures that can be adopted to reduce energy use and the associated carbon output. Unfortunately, the onset of lockdown measures significantly impacted on our ability to replicate this across the wider estate and our plan is to revisit options for energy efficiency actions based on our previous learnings from this project once lockdown measures have eased and our operations return to normality.

Global GHG emissions and energy use data for FY 2020

	Current reporting year FY 2020			Comparison reporting year 2018/19*			
	UK and offshore	Global (excluding UK and offshore)	Total	UK and offshore	Global (excluding UK and offshore)	Total	% Change year-on-year
Scope 1 tCO_2e	**78,000**	**1,936**	**79,936**	–	–	84,388	-5.3%
Scope 2 tCO_2e	**62,963**	**1,595**	**64,558**	–	–	118,696	-45.6%
Total Scope 1 & 2 emissions tCO_2e	**140,963**	**3,531**	**144,494**	–	–	203,084	-28.9%
Energy Consumption used to calculate the above emissions: kWh	**659,958,694**	**16,556,529**	**676,515,223**	–	–	–	–
Intensity Ratio: tCO_2e/turnover(£m)	**–**	**–**	**98.0**	–	–	93.4	4.9%

* Note that the requirement to report underlying energy use and the split between UK and Global emissions was brought in last year under SECR guidelines and is only applicable for the FY 2020 reporting period onwards.

DISCLOSURE OF INFORMATION TO AUDITOR
Having made the requisite enquiries, so far as the Directors are aware, specifically those who are a Director at the date of approval of the Annual Report, there is no relevant audit information (as defined by Section 418(3) of the Companies Act 2006) of which the Company's auditor is unaware and each Director has taken all steps that ought to have been taken to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This report, which includes the Strategic report, has been approved by the Board and is signed on its behalf.

GREG McMAHON
Company Secretary and General Counsel
25 November 2020

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

Company law requires the Directors to prepare such financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

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

This Corporate Governance Statement sets out our report to shareholders on the status of our corporate governance arrangements.

BOB IVELL
Chairman

The Board is responsible for ensuring that the activities of the Group and its various businesses are conducted in compliance with the law, regulatory requirements and rules, good practices, ethically and with appropriate and proper governance and standards. This includes reviewing internal controls, ensuring that there is an appropriate balance of skills and experience represented on the Board, compliance with the applicable UK Corporate Governance Code, which is issued by the Financial Reporting Council and which is available at www.frc.org.uk, and maintaining appropriate relations with shareholders and other stakeholders.

The latest financial information for Mitchells & Butlers and its group of companies is included in the 2020 Annual Report and Accounts (of which this Corporate Governance Statement forms part) and which is available online at: www.mbplc.com/investors

This includes a statement on the Company's reaction to the Covid-19 pandemic and measures taken to ensure the safety of the business and its guests. This statement may be found on pages 10 to 12 of the Strategic report. Additional corporate governance measures were also rapidly implemented in order to monitor the changing situation and ensure compliance with the legal obligations arising therefrom.

SHAREHOLDER RELATIONS

The Board recognises that it is accountable to shareholders for the performance and activities of the Company. The Company regularly updates the market on its financial performance, at the half year and full year results (the former are normally released in May but were released in July 2020 due to the Covid-19 pandemic and the latter are normally released in November), and by way of other announcements as required. The content of these updates is available by webcast on the Company's website, together with general information about the Company so as to be available to all shareholders. The Company has a regular programme of meetings with its larger shareholders which provides an opportunity to discuss, on the basis of publicly available information, the progress of the business.

On a more informal basis, the Chairman, Chief Executive and the Chief Financial Officer regularly report to the Board the views of larger shareholders about the Company, and the other Non-Executive Directors are available to meet shareholders on request and are offered the opportunity to attend meetings with larger shareholders.

The AGM provides a useful interface with shareholders, many of whom are also guests in our pubs, bars and restaurants. All proxy votes received in respect of each resolution at the AGM are counted and the balance for and against, and any votes withheld, are indicated.

At the January 2020 Annual General Meeting, the Company had three resolutions where 20% or more of votes cast were cast against the resolution. These were in respect of the re-election of Eddie Irwin, Josh Levy and Ron Robson and resulted in the Company featuring in the Investment Association's public register of shareholder dissent. The Company's response to its inclusion in that register can be found in the register itself and on the Company's website www.mbplc.com.

While it is understood that the votes against were the result of their status as representatives of our two largest shareholders, the Company continues to believe that the statements made in that response remain true. Further, the response required to deal with the threat posed to the business by Covid-19 means that changes to the Board are not currently being considered.

No changes to the Board were made during the year and the Board currently consists of twelve members, five of whom are independent Non-Executive Directors (including three female independent Non-Executive Directors). A more detailed explanation is set out at page 63.

CORPORATE GOVERNANCE MEASURES IMPLEMENTED IN FY 2020 IN RESPONSE TO COVID-19

This section of the Corporate Governance Statement sets out in summary form the governance arrangements, employee wellbeing arrangements and the physical workplace implications which were implemented by the Company in relation to the Covid-19 pandemic and the closure of its businesses in the UK and Germany, their subsequent reopening and ongoing further disruptions.

Governance arrangements:

In my Chairman's Statement on pages 8 and 9, I made reference to the measures the Board took in relation to the Covid-19 pandemic and, in particular, how our well established strong corporate governance procedures enabled the organisation to react quickly to the Government guidance and the risk the pandemic posed to the organisation. This Corporate Governance Statement now gives further insight into the governance changes which were rapidly implemented in response to the changing situation.

Following the start of the Covid-19 pandemic, the Group continued with its scheduled cycle of Board meetings, although these were held by way of virtual meetings or, where this was not practicable, by telephone in order, in each case, to avoid the need for face-to-face meetings and in compliance with the advice of the UK Government that meetings should not take place. In order to ensure that the Directors who participated in these meetings had the benefit of all appropriate up-to-date information, formal Board papers were prepared and made available electronically to all participants. There were also presentations to those meetings by external advisers and representatives of those leading the industry consultation with Government representatives. These Board meetings were minuted in the ordinary way. There were Board meetings held in March, April, May, June, July and September (in line with the normal phasing of Board meetings), together with weekly briefing reports sent by the Chief Executive to the Board.

The formal Committees of the Board also continued to meet during the period of closure, with the exception of the Nomination Committee as there were no matters for consideration which fell within its remit. The Audit Committee met in May, June and September and the matters which it considered are referred to in the Audit Committee Report on pages 70 to 73. The Remuneration Committee met in March, April, July and September and the matters which it considered are referred to in the Report on the Directors' remuneration on pages 74 to 89.

In addition, from March to August 2020, the Chairman, Chief Executive, Chief Financial Officer and the Company Secretary and General Counsel held virtual meetings each week, to assess developments and to ensure that any potentially announceable events were identified and considered in the context of the Disclosure Guidance and Transparency Rules and the Listing Rules. In some cases these included the benefit of participation by the Company's external legal advisers. The matters considered in these meetings and the agreed actions were reported regularly to the Board.

The Executive Committee, the principal operational decision-making forum of the Company, which reports to the Board, moved to virtual meetings for its usual scheduled meetings in March, May, August and September. In addition, regular scheduled calls were held (initially daily and subsequently weekly), and its work was supported by the Covid-19 Steering Committee and the Reopenings Review Group. More details on these bodies are given below.

The Executive Committee undertook a series of activities focused on the implications for the Group's business of the Covid-19 outbreak, the closure of the Group's trading sites and central offices and the consequent introduction of remote working. The Executive Committee also implemented arrangements for:

- the payment of suppliers to ensure that valued trading relationships were maintained;
- how to deal with the rent due to the Company from its tenants – with the approach being agreed that all such rental payments would be deferred;
- the immediate cancellation of ongoing projects and the capital programme (except to the extent of preserving the integrity of the Group's real property); and
- communication with employees via the Company intranet and via line manager briefings by telephone or otherwise through virtual/remote media. This process involved regular communication with both those employees who were on furlough and those continuing in role, to ensure there was clarity of the evolving situation for all relevant stakeholders. This included an employee survey which sought the views of employees on their wellbeing and their thoughts about a return to work.

With effect from 12 March 2020, prior to the initial closure of the Group's businesses but as the risk from the pandemic became more acute, the Company established a Covid-19 Steering Committee comprised of its Executive Committee together with the Head of Safety and members of the operational effectiveness team and finance team. This Committee initially met daily, by conference call or virtual meeting, and moved to a twice-weekly programme of meetings with effect from early April 2020, i.e. after the Group's trading sites had been closed down.

That Steering Committee continued to meet twice weekly throughout the initial period of closure and after the first reopening of the Group's businesses in Germany (in the period from mid-May 2020), in England and Northern Ireland with effect from 4 July 2020, in Scotland with effect from 15 July 2020 and in Wales with effect from 13 July 2020.

The Steering Committee addressed, agreed and managed plans for closure of the sites, disposal of surplus food to community groups including via FareShare as referred to in more detail on page 7, disposal of drinks and the ongoing repair and maintenance of the closed estate. It also oversaw the communication with employees, the implementation of the Coronavirus Job Retention Scheme and the furloughing of employees.

By way of further explanation, the issues considered by the Steering Committee included:

- the necessary dialogue with Governments in each of the nations of the United Kingdom, public health authorities and Primary Authorities, and, as facilitated by UK Hospitality, with other hospitality businesses in relation to matters of common interest;
- how to ensure that the Group's assets were preserved;
- how to ensure that a 'skeleton staff' was retained and not placed on furlough to ensure that the Group could continue to operate and carry on those functions such as payroll, financial management, treasury management and the supervision of ongoing litigation and claims, which were unaffected by the closure of the business; and
- communication with the Group's employees, both those on furlough or continuing in role.

The Steering Committee's decisions and its ongoing monitoring of the evolution of the Company's response to the pandemic and its impact on the Company's business, employees, suppliers, and landlord/tenant relationships and its estate were reported to the Board by way of a weekly written report by the Chief Executive.

The management of the response of the Group's businesses in Germany, principally its Alex sites, followed a similar pattern to that which took place in the UK. However, due to the fact that health and safety regulations are the responsibility of the 16 different states within Germany, the approach had to be focused on individual cities and regions as the regulations and requirements differed between several of those states.

The critical governance control, however, was the weekly senior management meetings (held observing applicable social distancing guidance) which allowed for co-ordination of activities and response plans in the closure process, the lockdown period and, as Germany followed a phased reopening programme with different regions allowing hospitality venues to re-open at different times, with appropriate, regionally focused safety protocols.

The approach by senior management in the case of Alex was similar to the UK plan but, because trading sites in Germany started to re-open before sites in the UK, the learnings from the German experience were shared with the UK management team, allowing the UK planning process to have greater insight into likely guest and regulatory reactions.

Once it became clear that it was likely that the UK Government would announce that hospitality businesses could start preparations for reopening, a separate Reopenings Review Group was set up comprised of the Chief Executive Officer, the Commercial Director, the Group HR Director, the Group Property Director, the Divisional Directors and the Head of Safety. It met weekly and considered the issues which needed to be addressed in preparing for the reopening of the estate and the re-commencement of trading in a way which met the requirements of the various UK governments and the public health authorities. It consulted, and received support and acceptance from, its Primary Authorities in the development of safe operational protocols which were then communicated to, and incorporated into training regimes for, the staff in trading sites and central offices ahead of reopening.

The issues considered by the Reopenings Review Group included:

- re-establishment of the supply chain;
- changes to the service cycle required to comply with the necessary safety protocols;
- the phasing of bringing sites back into operation and, to support this, the preparations for reopening and when, and in what numbers, to bring staff back from furlough; and
- training that teams would require in order to implement Covid-safe procedures.

In relation to the Group's financial position, the Company negotiated a revised financial package with its secured and unsecured lenders as announced on 12 June 2020. This process was overseen by the Board which had established a Refinancing Committee made up of the Chief Financial Officer and two Non-Executive Directors with appropriate financing or restructuring experience, Keith Browne and Jane Moriarty. That Committee reported to the Board at each of its meetings.

In the light of the recent announcement of the UK Government of a compulsory closure of hospitality venues in England, the Covid-19 Steering Committee has been re-established to monitor, manage and guide the implementation and consequences of that lockdown. At the time of publication of this report, that Steering Committee has adopted the same approach and is considering the same issues as it previously did and reports to the Board regularly.

Employee wellbeing arrangements and workplace implications: Following the instruction of the UK Government on 20 March 2020 that the Group's premises should close with immediate effect, the trading sites were closed later that day and, after a few days of operating with a skeleton staff to ensure a clean close down and transition to remote working, the Company's Retail Support Centre and other central support offices also closed down.

At that time, over 99% of employees had been put on furlough, with basic pay for all employees including the Board reduced to between 60% and 80% depending on seniority, with more senior staff and Board members taking larger reductions. Around 150 members of staff remained in role, including the Executive Committee, the Head of Safety, the treasury team, the payroll team, and those members of the property team dealing with essential estate maintenance and repair, together with security, a core financial management group and a core supplier relationship group to manage ongoing supply chain arrangements and the IT support helpdesk. That continuing group all worked remotely, using technology and cyber security arrangements which were already available across the business. There were no meetings held in any of the Group's offices until the Government issued its recommendation that businesses start to encourage staff to return to work. Any such meetings were (and continue to be) held only on an 'as needed' basis with appropriate social distancing and safety protocols.

In order to ensure that it was able to assess any concerns which the Company's employees had in respect of either being on furlough and away from their day-to-day roles or working remotely from colleagues, the Company carried out a Wellbeing survey in June which had responses from over 16,500 colleagues. The principal outputs of that survey were used in developing the Company's return to work plans and to enable any common concerns to be addressed.

CORPORATE GOVERNANCE CODE REPORTING

For FY 2019, the Company reported against both the 2016 Code and the revised 2018 Code. The latter became effective for accounting periods beginning on or after 1 January 2019 and it was not therefore necessary to address it in FY 2019. Nevertheless, given that the 2018 Code represented a higher governance standard than the 2016 Code, the Company felt it prudent to anticipate, and deal at an early stage with, the changes which would become effective for FY 2020. This also had the advantage of highlighting any areas requiring attention.

The key changes between the 2016 and 2018 versions are:

1. enhanced board engagement with the workforce and wider stakeholders, including describing how the Company complies with its obligations to take into account stakeholder views pursuant to Section 172 Companies Act 2006;
2. demonstration of a clear business strategy aligned with a healthy corporate company culture;
3. a high-quality and diverse board composition; and
4. proportionate executive remuneration that supports the long-term success of the business.

Mitchells & Butlers is now required to report against the 2018 Code and accordingly does so in this Corporate Governance Statement.

As part of its early adoption of the 2018 Code, the Board established a Corporate Responsibility Committee in June 2019. The purpose of this Committee is to allow more executive, leadership and functional management involvement in key areas of significant importance including environmental impacts of the Group's activities, community relationships and the role of the Company in society. The establishment of this Committee demonstrates a significant commitment to the enhancement of governance in general and matters such as stakeholder engagement and is therefore seen as a positive development. More details of this Committee and its membership are set out on page 67 and its Terms of Reference are on the Company's website www.mbplc.com

ALIGNMENT TO THE 2018 CODE

As part of its alignment with the 2018 Code, the following operational and administrative framework is in place.

1. Enhanced Board engagement with the workforce and wider stakeholders

The 2018 Code recommends that the Board should consider wider stakeholder views, in particular implementing arrangements for gathering the views of the workforce. The 2018 Code permits a designated Non-Executive Director to fill this role and in 2019 the Board designated Dave Coplin for this role. The purpose of this appointment under the 2018 Code is to gather employee views, ensure employee views are taken into account in Board discussions and decision-making, and engage with the workforce to explain how executive remuneration aligns with the Company's remuneration policy. This commenced in FY 2019 with Dave Coplin being introduced to those executive managers who could help ensure that meetings and site visits were effective. Progress continued during FY 2020.

Mitchells & Butlers has an Employee Forum with elected representatives which meets with the Executive Directors and members of the Executive Committee annually. Dave Coplin also attends these meetings. In FY 2020 there were two Employee Forum meetings. Questions from the workforce in general are sought through the intranet to seek areas of concern or enquiry and to enable the Company to respond. Two Employee Forum meetings per year are held and the Employee Forum agenda includes an overview of how executive pay is aligned with the Company's strategic objectives. The Terms of Reference of the Employee Forum reflect this.

The results of regular Board roadshows are used to update managers on performance and the latest developments affecting the Group, and employee feedback is included in Board papers where appropriate as part of the decision-making process.

2. A clear business strategy aligned with a healthy corporate company culture

In July 2018 the Financial Reporting Council published 'Guidance on the Strategic Report', strengthening the link between the purpose of the Strategic Report and the Directors' duty under Section 172 Companies Act 2006, to promote the success of the Company. The revised guidance encourages companies to consider the broader matters that may impact upon the performance of the Company over the longer term including the interests of wider stakeholders, and it is now established Mitchells & Butlers practice that strategic proposals put to the Company's Board meetings include a requirement to consider the Directors' duties under Section 172. A detailed explanation of the manner in which the Board has discharged its responsibilities under Section 172 is set out in the Compliance Statements on pages 39 and 40.

The specific provisions of Section 172 require directors to act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and, in doing so, have regard to the interests of other stakeholders. The specific requirements of Section 172 are that Boards should consider:

- the likely consequences of decisions in the long term;
- the interests of the Company's employees;
- the fostering of business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the maintenance of high standards of business conduct; and
- the fairness of actions as between members of the Company.

The 2018 Code specifically requires that the Board should understand the views of the Company's key stakeholders (including employees, suppliers, customers and others) and keep stakeholder engagement mechanisms under review so they remain effective. The 2018 Code also recommends that there should be regular reporting as to how the Board has complied with this engagement approach in its decision-making processes. The 2018 Code sets out a series of aspects to be taken into account in demonstrating the Board has complied with its Section 172 responsibilities. These are listed below, together with Company procedures which align Mitchells & Butlers' corporate behaviour with the spirit and values of the 2018 Code:

a. Culture
Mitchells & Butlers has in place a set of PRIDE values of Passion, Respect, Innovation, Drive and Engagement which underpin its key priorities of People, Practices, Profits and Guests. The Board observes these PRIDE values in discharging its everyday responsibilities and considering decisions and proposals and encourages all levels of the organisation to do so.

b. Strategy
In demonstrating that the Board is promoting the success of the Company and taking decisions with regard to their long-term impact, the Board must ensure it has in place, and regularly reviews, its agreed strategy.

Developments arising from the strategy review are followed up, documented and, on a regular basis, the Board reviews whether the Company is operating in line with that strategy and/or there needs to be a revision of the strategy to reflect external and possibly internal changes in the dynamics of the business. Board papers refer to whether they reflect a proposal that is aligned to, or diverges from, the agreed strategy.

Principle B and Provisions 1 and 2 of the 2018 Code require the Board to:

- describe how opportunities and risks to the future success of the business have been considered and addressed, the sustainability of the Company's business model and how its governance contributes to the delivery of its strategy;
- establish the Company's purpose, values and strategy, ensure that these and its culture are aligned and describe the activities the Board takes to monitor and implement this culture; and
- describe the Company's approach to investing in and rewarding its workforce.

Details of how the Board achieves this are given in the Strategic report on pages 8 to 44.

c. Training and awareness
There is an induction process for all Directors on appointment and the Company Secretary is available to all Directors, whether of the Company or any of the subsidiaries, for consultation and guidance on matters of governance in relation to any aspects of the affairs of any part of the Group. As circumstances or new areas develop, whether in the operations of the business or externally, appropriate training will be considered to ensure that each Director is involved in decision making and oversight with the benefit of the correct amount of knowledge as to what is relevant for consideration.

The induction process ensures that Directors are aware of, and understand, the requirements under Section 172. Nevertheless, in April 2019, a comprehensive guide was sent to all subsidiary Directors to provide training below Board level in relation to Section 172 requirements, focusing on how such considerations should be documented in the future, to ensure a proper understanding of what needs to be considered and what evidence is required to be presented when putting proposals to the Board.

This process continued in FY 2020 and, in particular, as part of the review and refreshing of the roles and responsibilities of subsidiary Directors at the outset of the Covid-19 disruption and the closure of the Group's businesses, a bespoke training session for subsidiary company Directors was presented by the Group's legal advisers, Freshfields Bruckhaus Deringer LLP.

Ongoing training and guidance on their responsibilities continues to be provided to subsidiary company Directors.

d. Information
Board paper procedures now contain specific references to the factors referred to in Section 172 Companies Act 2006, so they can be brought to the Board's attention where appropriate.

e. Policies and processes
The business has an existing comprehensive suite of policies and processes and these are updated, revised and re-communicated regularly.

f. Stakeholder engagement
Engagement with the workforce is addressed above and engagement with guests is dealt with through the Guest Health initiatives. Engagement with key, critical suppliers is addressed through the supplier segmentation tiering process where we consult with suppliers on a regular basis. This varies from monthly interaction to annual reviews, depending on where the supplier appears on the Company's tier 1 to tier 4 ranking (which is a multi-factor process involving criticality, volume, spend size and availability of substitute products).

3. Board composition and diversity
a. Board composition
The appointment of Jane Moriarty and Susan Murray as independent Non-Executive Directors in FY 2019 enhanced both the independence and diversity of the Board and the impact of those changes continued into FY 2020. Their appointments brought broader experience in the areas of Finance and Marketing outside the specific characteristics of the business of the Company and the industry sector and created a more diverse gender profile, and they have strengthened the balance and breadth of the Board's decision-making. Susan Murray is also the Board's Senior Independent Director.

b. Board diversity
Principle J of the 2018 Code states that Boards are encouraged to 'promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths' through their appointments and succession planning. The purpose is to ensure that there is a balance of views from different genders and other experiences and skill sets around the Board table so that decision-making can be made with good oversight of all relevant factors.

The Company has had a Board Diversity Policy in place for some time, but during FY 2019 it was also agreed that talent pipeline presentations to the Board should include the extent to which diversity aspects have been taken into account in development plans/recruitment, and that ethnicity and disability reporting should be addressed, to the extent that the Company has reliable data. Talent pipeline presentations continued to be made in the early part of FY 2020 but this process was put on hold from late March 2020 when over 99% of the Company's employees were furloughed during Covid-19 restrictions. As the Group's business and activities gradually return to a degree of normality, this programme will resume when circumstances permit.

Gender Pay Gap data is already overseen by the Remuneration Committee and details are set out on page 77 of the Report on the Directors' remuneration.

4. Proportionate executive remuneration
This is dealt with on pages 77 and 88 of the Report on the Directors' remuneration.

CORPORATE GOVERNANCE
The Board is committed to high standards of corporate governance. The Board considers that the Company has complied throughout the year ended 26 September 2020 with all the Provisions and best practice guidance of the 2018 Code except certain specific aspects related to Board composition and the constitution of Board Committees. This Corporate Governance Statement addresses the small number of areas where, for reasons specific to Mitchells & Butlers, there are divergences from the 2018 Code as described below.

The Audit Committee Report and Nomination Committee Report, which are set out on pages 70 to 73 and page 66 respectively of the Annual Report, also form part of this Corporate Governance Statement and they should all be considered together.

The Board recognises the importance of good corporate governance in creating a sustainable, successful and profitable business and details are set out in this statement of the Company's corporate governance procedures and application of the principles of the 2018 Code. There are, however, a small number of areas where, for reasons specifically related to the Company, the detailed Provisions of the 2018 Code were not fully complied with in FY 2020. These areas are kept under regular review. A fundamental aspect of the 2018 Code is that it contains best practice recommendations in relation to corporate governance yet acknowledges that, in individual cases, these will not all necessarily be appropriate for particular companies. Accordingly, the 2018 Code specifically recognises the concept of 'Comply or Explain' in relation to divergences from it.

COMPLIANCE WITH THE CODE

Except for the matters which are explained below (in line with the 'Comply or Explain' concept), the Company complied fully with the Principles and Provisions of the 2018 Code throughout the financial year in respect of which this statement is prepared (and continues to do so as at the date of this statement).

EXPLANATION FOR NON-COMPLIANCE WITH PARTS OF THE CODE

During the year, there were four divergences from full compliance with the 2018 Code, as set out below by reference to specific paragraphs in the 2018 Code.

1. Chairman's tenure (Provision 19)

Provision 19 of the 2018 Code states:

"The chair should not remain in post beyond nine years from the date of their first appointment to the board. To facilitate effective succession planning and the development of a diverse board, this period can be extended for a limited time, particularly in those cases where the chair was an existing non-executive director on appointment. A clear explanation should be provided."

In its 2019 Annual Report, the Company explained why it felt it was appropriate that Bob Ivell should remain in place as Chairman of Mitchells & Butlers.

The extraordinary events of 2020 and the challenges which the Group has faced have made it clear that the decision to confirm that Mr Ivell should remain in place, which therefore allowed him to co-ordinate the Board's oversight of the senior executive team's response to the pandemic, was the correct one.

As the uncertainties about the effect of Covid-19 on the hospitality industry and Mitchells & Butlers in particular are expected to remain well into 2021, the Board's view, supported by its two major shareholders and the Executive Directors, is that this is not an appropriate time for the Board to be considering changes in the existing arrangements as the stability which the current position engenders, together with Mr Ivell's extensive industry experience and his involvement with such influential bodies as UK Hospitality, have been of great assistance to the Company in how it has addressed these events.

The above represents the Company's position in relation to Provision 19 of the 2018 Code on Bob Ivell's Chair tenure, but in any event, the Board considered it essential to have a stable and experienced Board while dealing with the emergency measures required to deal with the ongoing effects of Covid-19, and so no further consideration was given to Provision 19 of the 2018 Code during FY 2020. This will remain the case while the Company continues to deal with the rebuilding of its business.

2. Composition of the Board (Provision 11)

During the year, Provision 11 of the 2018 Code, which requires that at least half the board, excluding the chair, should be non-executive directors whom the board considers to be independent, was not complied with. Accordingly, this had consequential implications on the composition of the Audit and Remuneration Committees.

The Board does not comply fully with the requirement for at least half of its members to be independent, due to the presence of four shareholder representatives on the Board, representing our two largest shareholders. These two shareholders maintain a dialogue via their representatives on the Board, all of whom are careful to ensure that there is no conflict between that role and their duty to the Board and other shareholders.

The two shareholders concerned have made extremely significant investments in the Company and the Board considers their investment objectives to be fully aligned with those of the Group and of other shareholders. The Board maintains excellent relations with its major shareholders and considers their commitment to be a significant factor in the ongoing stability of the Board, particularly as a result of their strong support of the Board's long-term strategy, including the recent Ignite initiatives. Their continued investment and presence on the Board adds value as the Group works towards common goals, and in pursuit of the Company's published strategy. In particular, the two largest shareholders have been very supportive of the Board's actions when the Company had to deal with the forced closure of the business for several months and their respective representatives continued to offer valuable advice and experience while the Board considered options in the face of such unprecedented circumstances.

The Board intends to continue to work closely with the representatives of its major shareholders to further the interests of the Company and no change is proposed to the shareholder representative profile of the Board in the immediate future.

3. Constitution of Committees

Throughout FY 2020, the Company had (and continues to have) fully functioning Nomination, Audit and Remuneration Committees as required by the 2018 Code.

However, the Audit and Remuneration Committees are not fully compliant with the relevant Provisions of the 2018 Code. Provisions 24 and 32 of the 2018 Code respectively specify that both the Audit and Remuneration Committees should consist of independent Non-Executive Directors and both Committees include the presence of representatives of major shareholders.

The Board has carefully considered the implications of this and has concluded that it constitutes a valid exception under the 'Comply or Explain' regime of the 2018 Code, in that the two shareholders concerned are committed to the progression and growth of the Company, have made a substantial financial commitment and are fully supportive of the Group's strategy. The shareholder representatives have significant commercial and financial experience and make a substantial contribution to the Committees and the Group remains fully committed to working with them on matters affecting the Group and its activities in the future.

The possibility of appointing a further independent Non-Executive Director remains a matter for the Nomination Committee to review and is considered regularly.

The information required by Disclosure Guidance and Transparency Rule ('DGTR') 7.1 is set out in the Audit Committee report on pages 70 to 73. The information required by DGTR 7.2 is set out in this corporate governance statement, other than that required under DGTR 7.2.6 which is set out in the Directors' report on pages 52 to 57.

BOARD COMPOSITION

The Board started and ended the year with 12 Directors and there were no changes during the year. The table on page 64 lists the composition of the Board during the year.

As indicated on page 69, in relation to the output of the Board effectiveness review process conducted during FY 2020, at the present time no significant changes to the leadership and oversight of the Group by its Board and its Committees are currently being considered due to the continuing uncertainties around the Company's trading environment caused by the ongoing Covid-19 pandemic.

THE BOARD

The Board is responsible to all stakeholders, including its shareholders, for the strategic direction, development and control of the Group. It approves strategic plans and annual capital and revenue budgets. It reviews significant investment proposals and the performance of past investments and maintains oversight, supervision and control of the Group's operating and financial performance. It monitors the Group's overall system of internal controls, governance and compliance and ensures that the necessary financial, technical and human resources are in place for the Company to meet its objectives. Our website includes a schedule of matters which have been reserved for the main Board.

During FY 2020 there were 15 scheduled Board meetings. More details of the governance arrangements during the Covid-19 disruption are set out on pages 59 to 61. There were also five meetings of the Audit Committee, six meetings of the Remuneration Committee and one meeting of the Nomination Committee. The table opposite shows attendance levels at the Board and Committee meetings held during the year; the numbers in brackets confirm how many meetings each Director was eligible to attend during the year.

Except as noted in the table opposite, full attendance was recorded for all Directors in respect of all Board and Committee meetings during FY 2020, but where Directors are unable to attend a meeting (whether of the Board or one of its Committees), they are provided with all the papers and information relating to that meeting and are able to discuss issues arising directly with the Chairman of the Board or Chair of the relevant Committee.

In addition, the Board members ordinarily meet more informally approximately four times a year and the Chairman and the Non-Executive Directors ordinarily meet without the Executive Directors twice a year. However, due to the constraints on meetings during FY 2020, these meetings have been limited to only one physical meeting in FY 2020 although there has been regular dialogue between the Board members, facilitated by the Chairman, throughout the financial year.

There are 11 Board meetings currently planned for FY 2021.

The Company Secretary's responsibilities include ensuring good information flows to the Board and between senior management and the Non-Executive Directors. The Company Secretary is responsible, through the Chairman, for advising the Board on all corporate governance matters and for assisting the Directors with their professional development. This includes regular corporate governance and business issues updates, as well as the use of operational site visits and the provision of external courses where required. The Company Secretary facilitates a comprehensive induction for newly appointed Directors, tailored to individual requirements and including guidance on the requirements of, and Directors' duties in connection with, the 2018 Code and the Companies Act 2006 as well as other relevant legislation.

An externally facilitated Board evaluation is required every three years and the last one took place in FY 2018, with the next one due in FY 2021. In FY 2020, the Company Secretary co-ordinated the internal performance evaluation of the Board, which was led by the Chairman, details of the output of which are set out at page 69.

The appointment and removal of the Company Secretary is a matter reserved for the Board.

Attendance levels at Board and Committee meetings

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Directors who served during the year				
Bob Ivell	15 (15)	n/a	6 (6)	1 (1)
Keith Browne	15 (15)	n/a	n/a	n/a
Dave Coplin	15 (15)	5 (5)	6 (6)	1 (1)
Eddie Irwin	14 (15)	5 (5)	6 (6)	0 (1)
Tim Jones	15 (15)	n/a	n/a	n/a
Josh Levy	15 (15)	n/a	6 (6)	n/a
Jane Moriarty	15 (15)	5 (5)	6 (6)	1 (1)
Susan Murray	13 (15)	5 (5)	6 (6)	0 (1)
Ron Robson	14 (15)	5 (5)	n/a	1 (1)
Colin Rutherford	15 (15)	5 (5)	6 (6)	1 (1)
Phil Urban	15 (15)	n/a	n/a	n/a
Imelda Walsh	15 (15)	5 (5)	6 (6)	1 (1)

Certain Directors were unable to attend meetings held on 12 December 2019, 27 March 2020 and 24 April 2020. In respect of the two meetings held on 12 December 2019, the relevant Directors could not attend due to pre-existing and unavoidable commitments which the Company had previously been notified of. In respect of the meetings held on 27 March 2020 and 24 April 2020, these were additional meetings convened on very short notice to deal with matters which had arisen in relation to the Covid-19 pandemic. Those Directors who could not attend these meetings had other commitments also relating to issues associated with the Covid-19 pandemic which they could not avoid or rearrange at such short notice.

Directors

The following were Directors of the Company during the year ended 26 September 2020:

		Date appointed	Date of change of role
Directors who served during the year			
Bob Ivell	Independent Non-Executive Director[1]	09/05/11	14/07/11
	Interim Chairman[1]	14/07/11	26/10/11
	Executive Chairman	26/10/11	12/11/12
	Non-Executive Chairman	12/11/12	–
Keith Browne[2]	Non-Executive Director	22/09/16	–
Dave Coplin	Independent Non-Executive Director	29/02/16	–
Eddie Irwin[2]	Non-Executive Director	21/03/12	–
Josh Levy[3]	Non-Executive Director	13/11/15	–
Tim Jones	Chief Financial Officer	18/10/10	–
Jane Moriarty	Independent Non-Executive Director	27/02/19	–
Susan Murray	Independent Non-Executive Director and Senior Independent Director	08/03/19	–
Ron Robson[3]	Non-Executive Director	22/01/10	–
	Deputy Chairman	14/07/11	–
Colin Rutherford	Independent Non-Executive Director	22/04/13	–
Phil Urban	Chief Executive	27/09/15	–
Imelda Walsh	Independent Non-Executive Director	22/04/13	–

1. Independent while in the role specified.
2. Nominated shareholder representative of Elpida Group Limited.
3. Nominated shareholder representative of Piedmont Inc.

At the start of the year, the Board was made up of nine male and three female members. There were no changes during the year and this remained the position at the year end.

The Executive Directors have service contracts. The Chairman and each of the Non-Executive Directors have letters of appointment. Copies of the respective service contracts or letters of appointment of all the members of the Board are available on the Company's website. In addition, they are available for inspection at the registered office of the Company during normal business hours and at the place of the Annual General Meeting from at least 15 minutes before and until the end of the meeting.

At the Company's forthcoming Annual General Meeting in 2021, all Directors will be required to stand for annual re-election, in accordance with the Company's Articles of Association. Their biographical details as at 25 November 2020 are set out on pages 48 to 51, including their main commitments outside the Company. In addition, Provision 18 of the 2018 Code requires that the papers accompanying the resolutions to elect or re-elect directors, set out the specific reasons why the individual director's contribution is, and continues to be, important to the Company's long-term sustainable success and this information will be included in the Notice of Meeting.

Provision 15 of the 2018 Code states that full-time executive directors should not take on more than one non-executive directorship in a FTSE 100 company or other significant appointments. The Mitchells & Butlers policy is that Executive Directors may be permitted to accept one external Non-Executive Director appointment with the Board's prior approval and as long as this is not likely to lead to conflicts of interest. During FY 2020, neither of the Executive Directors held any such external directorship, nor did they hold any other significant appointments, as a director or otherwise, and that remains the case as at the date of this Annual Report.

Division of responsibilities between Chairman and Chief Executive

In accordance with Provision 9 of the 2018 Code, the roles of Chairman and Chief Executive should not be exercised by the same individual.

The division of responsibilities between the Chairman and the Chief Executive is clearly established as required by Principle G of the 2018 Code and these are set out in writing and have been agreed by the Board. In particular, it has been agreed in writing that the Chairman shall be responsible for running the Board and shall provide advice and assistance to the Chief Executive. He also chairs the Nomination Committee, is a member of the Remuneration Committee and attends, by invitation, meetings of the Audit Committee. He also chairs the Market Disclosure Committee, Corporate Responsibility Committee, the Property Committee and the Pensions Committee.

It is also agreed in writing that the Chief Executive has responsibility for all aspects of the Group's overall commercial, operational and strategic development. He chairs the Executive Committee (details of which appear on page 67) and attends the Nomination, Remuneration and Audit Committees by invitation, not necessarily for the entirety of such meetings depending upon the subject matter. He is also a member of the Market Disclosure Committee, the Property Committee and the Pensions Committee.

The segregation of responsibilities between the Chairman and the Chief Executive is set out in the Company's Corporate Governance Compliance Statement, which is available on our website, www.mbplc.com

All other Executive Directors (currently just the Chief Financial Officer) and all other members of the Executive Committee report to the Chief Executive.

Chairman

Provision 9 of the 2018 Code provides that the Chairman should, on appointment, meet the independence criteria set out in Provision 10 of the 2018 Code. Bob Ivell met these independence criteria on appointment.

Bob Ivell was appointed to the role of Executive Chairman on 26 October 2011 on the departure of the then Chief Executive and reverted to the role of Non-Executive Chairman on 12 November 2012.

The Chairman ensures that appropriate communication is maintained with shareholders. He ensures that all Directors are fully informed of matters relevant to their roles. An explanation of the Board's view on the Chairman's tenure is set out at page 63.

Chief Executive

Phil Urban was appointed Chief Executive on 27 September 2015. He has responsibility for implementing the strategy agreed by the Board and for the executive management of the Group.

Senior Independent Director

Susan Murray became Senior Independent Director immediately upon her appointment to the Board on 8 March 2019.

The Senior Independent Director supports the Chairman in the delivery of the Board's objectives and ensures that the views of all major shareholders and stakeholders are conveyed to the Board. Susan Murray is available to all shareholders should they have any concerns if the normal channels of Chairman, Chief Executive or Chief Financial Officer have failed to resolve them, or for which such contact is inappropriate.

The Senior Independent Director also meets with Non-Executive Directors, without the Chairman present, at least annually, and conducts the annual appraisal of the Chairman's performance and provides feedback to the Chairman on the outputs of that appraisal.

Non-Executive Directors

The Company has experienced Non-Executive Directors on its Board.

Ron Robson and Josh Levy were appointed to the Board as representatives of one of the Company's largest shareholders, Piedmont Inc., and were therefore not regarded as independent in accordance with the 2018 Code.

Eddie Irwin and Keith Browne were appointed to the Board as representatives of another of the Company's largest shareholders, Elpida Group Limited, and were therefore not regarded as independent in accordance with the 2018 Code.

There are currently five independent Non-Executive Directors on the Board: Colin Rutherford, Imelda Walsh, Dave Coplin, Jane Moriarty and Susan Murray.

Other than their fees, and reimbursement of taxable expenses which are disclosed on page 81, the Non-Executive Directors received no remuneration from the Company during the year. During the financial year, the Non-Executive Directors agreed to a reduction in their fees to 60% of their normal rate, in alignment with the Executive Directors and the other members of the Executive Committee for the period from April to September 2020.

With effect from 1 January 2021, the base fee for Non-Executive Directors will remain at £53,000 per annum, the fee paid to Non-Executive Directors for chairing a Committee or for the role of Senior Independent Director will remain at £13,000 per annum, and the fee paid to Dave Coplin for his role as the Board representative for 'employee voice' will remain at £13,000 per annum.

When Non-Executive Directors are considered for appointment, the Board takes into account their other responsibilities in assessing whether they can commit sufficient time to their prospective directorship. On average, the Non-Executive Directors spend two to three days per month on Company business, but this may be more depending on the circumstances from time to time.

Board information and training

All Directors are briefed by the use of comprehensive papers circulated in advance of Board meetings and by presentations at those meetings, in addition to receiving minutes of previous meetings. Their understanding of the Group's business is enhanced by business specific presentations and operational visits to the Group's businesses. Separate strategy meetings and meetings with senior executives and representatives of specific functions, brands or business units are also held throughout the year.

The training needs of Directors are formally considered on an annual basis and are also monitored throughout the year with appropriate training being provided as required, including corporate social responsibility and corporate governance as well as the environmental impacts of the Company's activities.

Independent advice
Members of the Board may take independent professional advice in the furtherance of their duties and the Board has agreed a formal process for such advice to be made available.

Members of the Board also have access to the advice and services of the Company Secretary and General Counsel, the Company's legal and other professional advisers and its external auditor.

The terms of engagement of the Company's external advisers and its external auditor are regularly reviewed by the Company Secretary and General Counsel.

COMMITTEES
The Audit, Remuneration, Nomination and Corporate Responsibility Committees have written terms of reference approved by the Board, which are available on the Company's website www.mbplc.com. Those terms of reference are each reviewed annually by the relevant Committee to ensure they remain appropriate.

Audit Committee
Details of the Audit Committee and its activities during the year are included in the Audit Committee report on pages 70 to 73 which is incorporated by reference into this statement.

Remuneration Committee
Details of the Remuneration Committee and its activities during the year are included in the Report on the Directors' remuneration on pages 74 to 89.

Nomination Committee
The Nomination Committee is responsible for nominating, for the approval of the Board, candidates for appointment to the Board. It is also responsible for succession planning for the Board and the Executive Committee and reviewing the output of the Board effectiveness review. In compliance with the disclosure requirements of Provision 23 of the 2018 Code, there is an ongoing process of review of the make-up of the Board and for Board succession, which is carried out by the Nomination Committee and led by the Chairman. The Nomination Committee engages external search agencies when required and ensures that all candidates are identified and assessed against pre-determined criteria. Gender balance is dealt with by the Nomination Committee on a regular basis and includes assessment of gender balance at senior management level. The appointment of Jane Moriarty and Susan Murray in FY 2019 enhanced the gender diversity of the Board, with 25% of our Board now consisting of women.

In accordance with the disclosure requirement in Provision 23 of the 2018 Code, as at the date of this report, the gender balance for those in the senior management team and their direct reports, was split as to 45% female and 55% male. For this purpose, the senior management team comprises the Executive Committee.

The gender balance of the Executive Committee (which includes two Board members) is 80% male and 20% female. Further information on the Executive Committee is given on page 67.

During the year, the Nomination Committee considered the composition of the Board and, following the year end, has assessed the outcome of the Board effectiveness review which was carried out during the financial year now reported on. More details of the conclusions of that review are on page 69. The Nomination Committee agrees the importance of having diversity on the Board, including female representation and individuals with different experiences, skill sets and expertise, so as to maintain an appropriate balance within the Company and on the Board.

Diversity and Inclusion Steering Group and Board Diversity Policy
The Company has a Diversity and Inclusion Steering Group which examines the implementation of diversity within the Group.

The Board has approved a Board Diversity Policy. The key statement and objectives of that policy are as follows:

Statement:
The Board recognises the benefits of diversity. Diversity of skills, background, knowledge, international and industry experience, and gender, amongst many other factors, will be taken into consideration when seeking to appoint a new Director to the Board. Notwithstanding the foregoing, all Board appointments will always be made on merit.

Objectives:
- The Board should ensure an appropriate mix of skills and experience to ensure an optimum Board and efficient stewardship. All Board appointments will be made on merit while taking into account individual competence, skills and expertise measured against identified objective criteria (including consideration of diversity).
- The Board should ensure that it comprises Directors who are sufficiently experienced and independent of character and judgement.
- The Nomination Committee will discuss and agree measurable objectives for achieving diversity on the Board with due regard being given to the recommendations set out in the Davies Report, the Hampton-Alexander Review and the 2018 Code. These will be reviewed on an annual basis.

Progress against the policy:
The Board continues to monitor progress against this policy. In terms of Board diversity, the proportion of women on the Board was 25% throughout FY 2020. Any future appointments will always be made on merit and will continue to take into account diversity, not only in terms of gender, but also in terms of the appropriate mix of skills and experience.

Details of the Mitchells & Butlers Diversity Policy, which applies to diversity in relation to employees of the Mitchells & Butlers Group, can be found in the Value Creation section on page 26.

A detailed description of the duties of the Nomination Committee is set out within its terms of reference which can be viewed at www.mbplc.com/investors/businessconduct/boardcommittees/

The following were members of the Nomination Committee during the year:

	Appointment date	Member at 26/09/20
Bob Ivell (Chair)	11/07/13	Y
Dave Coplin	29/02/16	Y
Eddie Irwin	11/07/13	Y
Jane Moriarty	27/02/19	Y
Susan Murray	08/03/19	Y
Ron Robson	11/07/13	Y
Colin Rutherford	11/07/13	Y
Imelda Walsh	11/07/13	Y

Market Disclosure Committee
The EU Market Abuse Regulation (MAR) which took effect in July 2016, brought about substantial changes relating to announcements of material information about the Company and its affairs, and relating to dealings in shares or other securities by Directors and other senior managers, including tighter controls on permitted 'dealings' during closed periods and the handling of information relating to the Company. MAR requires companies to keep a list of people affected and the previous compliance regime and timeframe were enhanced.

As a result, a formal standing Committee of the Board was established, the Market Disclosure Committee, which comprises the Chairman, the Chief Executive, the Chief Financial Officer and an independent Non-Executive Director, currently Colin Rutherford.

Corporate Responsibility Committee
A Corporate Responsibility Committee was established in June 2019 and its purpose is to allow more executive, leadership and functional management involvement in matters of corporate responsibility and sustainability. Its Terms of Reference are on the Company's website www.mbplc.com

The Corporate Responsibility Committee comprises Bob Ivell (Chair), Ron Robson, Imelda Walsh, Colin Rutherford, Eddie Irwin, Susan Murray, Jane Moriarty and Dave Coplin. The Chief Executive, Phil Urban, is invited to attend regularly.

Following approval of the Committee's formation, a work plan for FY 2020 was established with a 'road map' and targets. A multi-disciplinary operational and functional steering committee was identified and tasked with carrying out first level oversight of the plan, with regular reports to the Corporate Responsibility Committee. Due to the disruption caused by the Covid-19 outbreak, the work of that team was largely paused from March 2020 until September 2020. However, its programme of work was recommenced in September 2020. More details of the activities involved in this programme during the financial year are set out on page 28.

Property Committee
The Property Committee reviews property transactions which have been reviewed and recommended by the Portfolio Development Committee, without the need for submission of transactions to the full Board. The Property Committee agrees to the overall strategic direction for the management of the Group's property portfolio on a regular basis and may decide that a particular transaction should be referred to the Board for consideration or approval. The Property Committee comprises Bob Ivell (Committee Chair), Phil Urban, Tim Jones, Josh Levy, Keith Browne, Colin Rutherford, Jane Moriarty and Gary John.

Pensions Committee
The Board has established a Pensions Committee to supervise and manage the Company's relationship with its various pension schemes and their trustees.

The Pensions Committee members are Bob Ivell (Committee Chair), Colin Rutherford, Imelda Walsh, Tim Jones, Phil Urban, Keith Browne and Josh Levy.

Throughout FY 2020 the work of the Pensions Committee focused primarily on the monitoring of the performance of the Group's pensions arrangements and the ongoing oversight of the Company's involvement in the application to court by the Trustee of the Mitchells & Butlers Pension Plan for rectification of the Trust Deeds and Rules of that plan as referred to at note 4.5 of the Group financial statements, including the decision by the Company and the Trustee to postpone activity in relation to this case and adjourn the trial to June 2021. The Committee also oversaw the discussions with the Trustees of both the Mitchells & Butlers Pension Plan and the Mitchells & Butlers Executive Pension Plan for a suspension of contributions into those two schemes in respect of the period from April 2020 to September 2020, with those contributions being postponed to the end of the respective recovery plan period.

Executive Committee
The Executive Committee, which is chaired by the Chief Executive, consists of the Executive Directors and certain other senior executives, namely Gary John (Group Property Director), Susan Martindale (Group HR Director), Greg McMahon (Company Secretary and General Counsel), Chris Hopkins (Commercial and Marketing Director) and Susan Chappell, Nick Crossley, David Gallacher and Dennis Deare (the Divisional Directors).

The Executive Committee ordinarily meets at least every six weeks and has day-to-day responsibility for the running of the Group's business. For FY 2021, it is intended that this Committee will meet more frequently on a four weekly cycle to align more closely with other operational meetings and forums.

It develops the Group's strategy and annual revenue and capital budgets for Board approval. It reviews and recommends to the Board any significant investment proposals. This Committee monitors the financial and operational performance of the Group and allocates resources within the budgets agreed by the Board. It considers employment issues, ensures the Group has an appropriate pool of talent and develops senior management workforce planning and succession plans.

A note of the actions agreed by, and the principal decisions of, the Executive Committee are supplied to the Board for information in order that Board members can keep abreast of operational developments.

Phil Urban has ultimate responsibility for employment related issues and he also oversees matters relating to human rights including the implementation of the Modern Slavery Act throughout the Group.

General Purposes Committee
The General Purposes Committee comprises any two Executive Directors or any one Executive Director together with a senior officer from an agreed and restricted list of senior Executives. It is always chaired by an Executive Director. It attends to business of a routine nature and to administrative matters, the principles of which have been agreed previously by the Board or an appropriate Committee.

Portfolio Development Committee
The executive review of property transactions and capital allocation to significant property matters such as site remodel and conversion plans and the Company's real estate strategy is carried out by the Portfolio Development Committee. This is not a formal Board Committee but comprises the Chief Executive, the Chief Financial Officer, the Group Property Director and the Company Secretary and General Counsel. It has delegated authority to approve certain transactions up to agreed financial limits and, above those authority levels, it makes recommendations to the Board or the Property Committee.

Treasury Committee
The treasury operations of the Mitchells & Butlers Group are operated on a centralised basis under the control of the Group Treasury department. Although not a formal Board Committee, the Treasury Committee, which reports to the Chief Financial Officer but is subject to oversight from the Audit Committee and, ultimately, the Board, has day-to-day responsibility for:

- liquidity management;
- investment of surplus cash;
- funding, cash and banking arrangements;
- interest rate and currency risk management;
- guarantees, bonds, indemnities and any financial encumbrances including charges on assets; and
- relationships with banks and other market counterparties such as credit rating agencies.

The Treasury Committee also works closely with the Finance Department to review the impact of changes in relevant accounting practices and to ensure that treasury activities are disclosed appropriately in the Company's accounts.

The Board delegates the monitoring of treasury activity and compliance to the Treasury Committee. It is responsible for monitoring the effectiveness of treasury policies and making proposals for any changes to policies or in respect of the utilisation of new instruments. The approval of the Board, or a designated committee thereof, is required for any such proposals.

CODE OF ETHICS

The Company has implemented business conduct guidelines describing the standards of behaviour expected from those working for the Company in the form of a code of ethics (the 'Ethics Code'). The Ethics Code was re-communicated to all employees in FY 2020 to ensure it was kept clearly in focus. Its aim is to promote honest and ethical conduct throughout our business. The Ethics Code requires:

- compliance with all applicable rules and regulations that apply to the Company and its officers including compliance with the requirements of the Bribery Act 2010;
- the ethical handling of actual or apparent conflicts of interest between internal and external, personal and professional relationships; and
- that any hospitality from suppliers must be approved in advance by appropriate senior management, with a presumption against its acceptance.

The Company takes a zero tolerance approach to bribery and has developed an extensive Bribery Policy which is included in the Ethics Code. The Ethics Code requires employees to comply with the Bribery Policy.

The Company also offers an independently administered, confidential whistleblowing hotline for any employee wishing to report any concern that they feel would be inappropriate to raise with their line manager. All whistleblowing allegations are reported to, and considered by, the Executive Committee and a summary report (with details of any major concerns) is supplied to, and considered by, the Audit Committee at each of its meetings.

Principle E and Provision 6 of the 2018 Code require the Board to be clear how its approach to whistleblowing has changed from an Audit Committee led approach to a Board led approach. Although the Audit Committee continues to receive regular reports on whistleblowing activity, each set of full Board papers also includes, as part of the report from the Group Risk Director, the number and assessment of any whistleblowing reports received and, where relevant, the actions taken in respect of reports which are, on investigation, found to be credible.

The Board takes regular account of social, environmental and ethical matters concerning the Company through regular reports to the Board and presentations to the Board at its strategy meetings.

Directors' training includes environmental, social and governance ('ESG') matters and the Company Secretary is responsible for ensuring that Directors are made aware of and receive regular training in respect of these important areas. The Chief Executive, Phil Urban, is ultimately responsible for ESG matters.

The Board is responsible for the Company's internal risk management system, in respect of which more details can be found in the 'Risks and uncertainties' section of this report, and in the following section of this statement.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for the Group's system of internal control and risk management and for reviewing its effectiveness. In order to discharge that responsibility, the Board has established the procedures necessary to apply the 2018 Code for the period under review and to the date of approval of the Annual Report. Such procedures are in line with the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' and are regularly reviewed by the Audit Committee.

The key features of the Group's internal control and risk management systems include:

- Processes, including monitoring by the Board, in respect of:

  i. financial performance within a comprehensive financial planning, accounting and reporting framework;
  ii. strategic plan achievement;
  iii. capital investment and asset management performance, with detailed appraisal, authorisation and post-investment reviews; and
  iv. consumer insight data and actions to assess the evolution of brands and formats to ensure that they continue to be appealing and relevant to the Group's guests.

- An overall governance framework including:

  i. clearly defined delegations of authority and reporting lines;
  ii. a comprehensive set of policies and procedures that employees are required to follow; and
  iii. the Group's Ethics Code, in respect of which an annual confirmation of compliance is sought from all corporate employees.

- The Risk Committee, a sub-committee of the Executive Committee, which assists the Board, the Audit Committee and the Executive Committee in managing the processes for identifying, evaluating, monitoring and mitigating risks. The Risk Committee, which continues to meet regularly, is chaired by the Company Secretary and General Counsel and comprises Executive Committee members and other members of senior management from a cross-section of functions.

During the period of the closure of the Company's estate and business, the monitoring of risks was undertaken on a twice weekly basis by the Covid-19 Steering Committee, reporting each week to the Board through the Chief Executive as referred to in more detail in the Risks and uncertainties section on pages 32 to 38.

The primary responsibilities of the Risk Committee are to:

i. advise the Executive Committee on the Company's overall risk appetite and risk strategy, taking account of the current and prospective operating, legal, macroeconomic and financial environments;
ii. advise the Executive Committee on the current and emerging risk exposures of the Company in the context of the Board's overall risk appetite and risk strategy;
iii. promote the management of risk throughout the organisation;
iv. review and monitor the Company's capability and processes to identify and manage risks;
v. consider the identified key risks faced by the Company and new and emerging risks and consider the adequacy of mitigation plans in respect of such risks; and
vi. where mitigation plans are regarded to be inadequate, recommend improvement actions.

The Group's risks identified by the processes that are managed by the Risk Committee are described in the 'Risks and uncertainties' section on pages 32 to 38.

More details of the work of the Risk Committee are included in the Audit Committee Report on pages 70 to 73.

- Examination of business processes on a risk basis including reports from the internal audit function, known as Group Assurance, which reports directly to the Audit Committee.

The Group also has in place systems, including policies and procedures, for exercising control and managing risk in respect of financial reporting and the preparation of consolidated accounts. These systems, policies and procedures:

i. govern the maintenance of accounting records that, in reasonable detail, accurately and fairly reflect transactions;
ii. require reported information to be reviewed and reconciled, with monitoring by the Audit Committee and the Board; and
iii. provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with International Financial Reporting Standards ('IFRS') or UK Generally Accepted Accounting Practice, as appropriate.

In accordance with the 2018 Code, during the year the Audit Committee completed (and reported to the Board its conclusions in respect of) its annual review of the effectiveness of the Group's risk management and internal control systems, including financial, operational and compliance controls.

The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and, as such, it can only provide reasonable and not absolute assurance against material misstatement or loss. In that context, in the opinion of the Audit Committee, the review did not indicate that the system was ineffective or unsatisfactory and to the extent that weaknesses in internal controls were identified, the Audit Committee confirmed that necessary remedial action plans were in place.

The Audit Committee is not aware of any change to this status up to the date of approval of this Annual Report.

With regard to insurance against risk, it is not practicable to insure against every risk to the fullest extent. The Group regularly reviews both the type and amount of external insurance that it buys with guidance from an external independent broker, bearing in mind the availability of such cover, its cost and the likelihood and magnitude of the risks involved and the mitigation which insurance might provide.

BOARD EFFECTIVENESS EVALUATION AND CHAIRMAN'S EVALUATION AND APPRAISAL

During the year, the Board also conducted an internally facilitated Board effectiveness evaluation, led by the Chairman with support from the Company Secretary and General Counsel.

Due to the disruption to the normal processes of the Board during the year, caused by the impact of the Covid-19 outbreak and its consequential effects on the Company and its business, the ability to implement the key findings of the 2019 Board effectiveness evaluation was significantly impaired.

The key findings of that 2019 process were:

- a review of the Board's composition;
- the development of a more formal succession plan for both the Board and the Leadership group; and
- continued focus on gender and ethnic diversity across all cohorts of the business, including the Board and the Leadership group.

However, the circumstances in which the Company was operating for much of FY 2020 were not appropriate for these matters to be progressed in the year although the Board re-confirmed its commitment that, as and when a greater degree of normality can be established, these will remain appropriate for implementation.

In particular, the Board is aware that one of the matters for focus going forward is its policy on Board succession, including those Non-Executive Directors who will in the near future reach the end of a third three-year period of tenure and, subject to the comments referred to on page 63, the Chairman's tenure. However, the Board has taken the view that in light of the existing uncertainties around the Company's trading environment caused by the pandemic and the fact that, at the time of preparing this report, those uncertainties remain for the foreseeable future, it is not an appropriate time for making significant changes in the leadership and oversight of the Group by its Board and its Committees.

Whilst the Board is committed to the development and implementation of a formal succession plan, as identified in its 2019 effectiveness review, it believes that changes at this stage, which may create unnecessary instability, and lead to the loss of significant experience of not only the Company but the industry more widely, would not be in the interests of shareholders or the Company's other stakeholders.

The 2020 evaluation process focused on two principal areas, which were the pre-eminent aspects for review in relation to the specific circumstances of FY 2020, namely how the Board and its governance arrangements, communications (both substantive and the methods used) and meetings/discussions operated in the year and areas for improvement in relation to those arrangements as identified through the changes in the Board's operating practices identified in the response to the pandemic.

The key findings of that review were:

- the Board's response to, and oversight of, the pandemic had been both effective and collaborative ensuring a highly constructive response to the exceptional circumstances created by the pandemic, with good communication of important information to Board members so that its meetings, mainly held virtually from April 2020 onwards, were productive, focused and led to clear decision-making; and
- the use of technology was much increased during the year, as virtual meetings were well conducted, with focused briefings and clear action lines emerging, being implemented and reported back upon. As a result, there was a desire, going forward, to include more technology in the Board's collaborative and inclusive approach to addressing key issues as well as, when the circumstances permit, physical meetings.

The annual appraisal of the Chairman's performance was conducted by the Senior Independent Director, Susan Murray, with the rest of the Board (without the Chairman present) and the conclusions were fed back to the Chairman.

Annual reviews of the Chairman's performance will continue to be conducted as required by the 2018 Code.

Introduction from the Audit Committee Chairman

COLIN RUTHERFORD
Chairman of the Audit Committee

On behalf of the Board, I present the report of the Audit Committee for the financial year ended 26 September 2020. During the period, as the purpose and effectiveness of external and internal audit procedures came under increasing public scrutiny, the Committee maintained an appropriate level of engagement with the Chief Financial Officer and the Group Risk Director, other key individuals and their teams who collectively provide an appreciation and rigorous insight into how the Group functions and reports. The Committee is always very grateful for the detailed instruction these interactions provide and this, in turn, significantly assists towards the promotion and efficient execution of the Committee's oversight role, ensuring confidence in reporting to the wider Board.

The impact of Covid-19 in relation to the overall governance and key controls operated across the business in a remote working environment presented new challenges to the business. Therefore, in order to provide assurance to the Audit Committee that key financial controls continued to operate as expected, an independent review was swiftly undertaken by the Group Risk Director. Findings confirmed that a good level of assurance continued, and no weaknesses were identified. The outputs from this review were reported to Senior Management and to the Audit Committee, providing comfort that despite the Company furloughing a number of staff, coupled with the inherent risks associated with increased remote working, the implications were minimal and key controls were unaffected.

ENGAGEMENT WITH EXTERNAL AUDITORS, INTERNAL AUDITORS AND OTHER THIRD-PARTY ADVISERS

The Committee continued to engage formally, regularly and at an appropriate level of detail with our external auditors, internal auditors (also externally resourced) and other third-party advisers as necessary. This has enabled the Committee to maintain an appropriate understanding of how our auditors and advisers interact and test our comprehensive risk functions. The Committee's engagement during the whole of the auditing and advisory process conveys confidence in their collective fieldwork conclusions.

It is also important to note the Committee's role in overseeing the well-considered provision of adequate resources by the Group, ensuring that any additional non-audit services required during the year were obtained where necessary, and in particular dealing with the increasing role of EU regulation and the Financial Reporting Council (FRC) and its evolving reporting requirements.

EFFECTIVENESS OF INTERNAL CONTROLS AND GROUP ASSURANCE AND RISK FUNCTION

The above efforts provided the Committee with a clear and detailed understanding of the principal financial and operational risks throughout the period. The Committee continued to focus on challenging the effectiveness of internal controls, the robustness of assurance and risk management processes and in assessing the importance of, and acting as required upon, all reported information received from our external and internal auditors and third-party advisers.

The Committee remains committed to maintaining an open and constructive dialogue on relevant audit matters with all shareholders. Therefore, should you have any comments or questions on any aspects of this report, or indeed the wider financial statements, may I respectfully ask you to please email myself, care of Adrian Brannan, Group Risk Director, at company.secretariat@mbplc.com

REMIT AND MEMBERSHIP OF THE AUDIT COMMITTEE

The main purpose of the Audit Committee is to review and maintain oversight of Mitchells & Butlers' corporate governance, particularly with respect to financial reporting, internal control and risk management. The Audit Committee's responsibilities also include:

- reviewing the processes for detecting fraud, misconduct and internal control weaknesses;
- reviewing the effectiveness of the Group Assurance function; and
- overseeing the relationship with the external and internal auditors and other third-party advisers.

At the date of the 2020 Annual Report, the Audit Committee comprised five independent Non-Executive Directors: Colin Rutherford (Chair), Imelda Walsh, Dave Coplin, Jane Moriarty and Susan Murray, and two further Non-Executive Directors, Ron Robson and Eddie Irwin, nominated by Piedmont Inc. and Elpida Group Limited respectively. In accordance with 2018 Code Provision 24 the Board considers that Colin Rutherford has significant, recent and relevant financial experience. Biographies of all of the members of the Audit Committee, including a summary of their respective experience, appear on pages 48 to 51.

The Audit Committee continued to meet at least quarterly during FY 2020. In each case, appropriate papers were distributed to the Committee members and other invited attendees, including, where and to the extent appropriate, representatives of the external audit firm, the internal Group Assurance function and other third-party advisers.

When appropriate, the Audit Committee augments the skills and experience of its members with advice from internal and external audit professionals, for example, on matters such as developments in financial reporting. Audit Committee meetings are also attended, by invitation, by other members of the Board including the Chairman, the Chief Executive and the Chief Financial Officer, the Company Secretary and General Counsel, the Group Risk Director and representatives of the external auditor, Deloitte LLP. The Audit Committee also has the opportunity to meet privately with the external auditor not less than twice a year, without any member of management present, in relation to audit matters.

The remuneration of the members of the Audit Committee is set out in the Report on Directors' remuneration on page 81.

SUMMARY TERMS OF REFERENCE

A copy of the Audit Committee's terms of reference is publicly available within the Investor section of the Company's website: www.mbplc.com/pdf/audit_committee_terms.pdf

The Audit Committee's terms of reference were approved by the Committee and adopted by the Board in 2013. Those terms of reference specifically provide that they will be reviewed annually. They have been reviewed and updated as appropriate each year since and no changes were felt to be needed in FY 2020.

At the time of re-adoption of the Company's Corporate Governance Compliance Statement in July 2016, as updated to reflect changes required to give effect to the introduction of the Market Abuse Regulation (MAR), changes to the Company's governance arrangements to reflect the requirements of MAR were introduced. Other than those MAR related amendments, which related to consequential changes to regulatory references (e.g. the UKLA's Disclosure and Transparency Rules are now known as the Disclosure Guidance and Transparency Rules), there have been no material changes to these Terms of Reference since the last review in 2015.

Accordingly, in FY 2020 no material changes were made to the terms of reference of the Audit Committee, but the work of the Audit Committee will be kept under review with the expectation that any such matters which come to light are included in the review scheduled for FY 2021.

The Audit Committee is authorised by the Board to review any activity within the business. It is authorised to seek any information it requires from, and require the attendance at any of its meetings of, any Director, member of management, and any employees, who are expected to co-operate with any request made by the Audit Committee.

The Audit Committee is authorised by the Board to obtain, at the Company's expense, outside legal or other independent professional advice and secure the attendance of outsiders with relevant experience and expertise, if it considers this necessary.

The Chair of the Audit Committee reports to the Board meeting following each Committee meeting on the Committee's work and the Board receives a copy of the minutes of each meeting.

The role and responsibilities of the Audit Committee are to:

- review the Company's public statements on internal control, risk management and corporate governance compliance;
- review the Company's processes for detecting fraud, misconduct and control weaknesses and to consider the Company's response to any such occurrence;
- review management's evaluation of any change in internal controls over financial reporting;
- review with management and the external auditor, Company financial statements required under UK legislation before submission to the Board;
- establish, review and maintain the role and effectiveness of the internal audit function, Group Assurance and the risk function, whose objective is to provide independent assurance over the Group's significant processes and controls, including those in respect of the Group's key risks;
- assume direct responsibility for the appointment, compensation, resignation, dismissal and the overseeing of the external auditor, including review of the external audit, its cost and effectiveness;
- pre-approve non-audit work to be carried out by the external auditor and the fees to be paid for that work together with the monitoring of the external auditor's independence;
- oversee the process for dealing with complaints received by the Group regarding accounting, internal accounting controls or auditing matters and any confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and
- adopt and oversee a specific Code of Ethics for all corporate employees which is consistent with the Company's overall statement of business ethics.

KEY ACTIVITIES OF THE AUDIT COMMITTEE

Audit matters are reviewed at quarterly Audit Committee meetings throughout the year at which detailed reports are presented for review. The Audit Committee commissions reports from external advisers, the Group Risk Director or Company management, either after consideration of the Company's major risks or in response to developing issues.

During the year, in order to fulfil the roles and responsibilities of the Audit Committee, the following matters were considered:

- the suitability of the Group's accounting policies and practices;
- half year and full year financial results;
- the scope and cost of the external audit;
- the external auditor's full year report;
- reappointment and evaluation of the performance of the external auditor, including recommendations to the Board, for approval by shareholders, on the reappointment of the Company's auditor and on the approval of fees and terms of engagement;
- as set out in more detail later in this report, the review of a tender process for the external auditor appointment;
- non-audit work carried out by the auditor and trends in the non-audit fees in accordance with the Committee's policy to ensure the safeguarding of audit independence;
- the co-ordination of the activities and the work programmes of the internal and external audit functions;
- the arrangements in respect of Group Assurance including its resourcing, external support, the scope of the annual internal audit plan for FY 2020, the level of achievement of that plan and the scope of the annual internal audit plan for FY 2021;
- periodic internal control and assurance reports from Group Assurance;
- review of outputs from a review of the key financial controls, which evaluated the operation of key financial controls during lockdown, whereby a significant increase in remote working was required;
- the Group's risk management framework for the identification and control of major risks, its risk and assurance mitigation plan and the annual assessment of effectiveness of controls;
- review of the going concern and corporate viability disclosures (a summary is reported on pages 44 and 39 respectively);
- compliance with the Company's Code of Ethics;
- corporate governance developments;
- the status of material litigation involving the Group;
- how the Company has implemented IFRS 16; and
- reports on allegations made via the Group's whistleblowing procedures and the effectiveness of these procedures, including a summary of reports received during FY 2020.

DISCLOSURE OF SIGNIFICANT ISSUES CONSIDERED

The Audit Committee has reviewed the key judgements applied in the preparation of the consolidated financial statements, which are described in the relevant accounting policies and detailed notes to the financial statements on pages 104 to 154.

The Audit Committee's review included consideration of the following areas and key accounting judgements:

- **Material Uncertainty** – the fact that the FY 2020 financial statements have been prepared on a going concern basis but noting, as set out at page 44 of the Annual Report, the aspect of material uncertainty;
- **Property, plant and equipment valuation** – the assumptions used by management to value the long leasehold and freehold estate including: estimated fair maintainable trading levels which consider a pre-Covid-19 performance; income shortfall deduction to reflect the short-term impact on valuation of trade rebuild post-Covid-19; brand multiples and use of spot valuations, to ensure a consistent valuation methodology is in place. The revaluation methodology is determined by using management judgement, with advice taken from third-party valuation experts. The Committee takes note of the material uncertainty placed on the valuation by the third-party valuer, as reported on page 43 of the Annual Report;
- Short leasehold buildings, right-of-use assets, unlicensed land and buildings, and fixtures, fittings and equipment are held at cost less depreciation and impairment. Value in use calculations used in this review consider the short-term impact of Covid-19 on forecast trading levels;
- **Pension surplus/deficit** – the actuarial pension surplus is sensitive to the actuarial assumptions applied in measuring future cash outflows. The use of assumptions such as the discount rate and inflation which have an impact on the valuation of the defined benefit pension scheme has been assessed by the Audit Committee. Management have used judgement to determine the applicable rate of inflation to apply to pension increases in calculating the defined benefit obligation. The total pension liability, inclusive of minimum funding, is significantly less sensitive to management assumptions due to the remaining term of the schedule of contributions;
- **Covenants** – the headroom on the covenants within the securitised estate, together with an evaluation of the mitigating options available to management (to ensure there is reasonable assurance that should a covenant be close to being breached, management have further actions that could be undertaken to prevent such a breach occurring), have been reviewed in detail by management and assessed by the Audit Committee. Refinancing activities, including the obtaining of covenant waivers, and the pension contribution deferrals, as agreed with the pension schemes' trustees, have been reviewed by the Audit Committee, in addition to the Going Concern and Corporate Viability report (which includes details of the material revenue and profitability reduction, resulting from the overall impact of Covid-19 upon business performance and future trading); and
- **Separately disclosed items** – 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.

EFFECTIVENESS OF INTERNAL AUDIT

The Audit Committee is responsible for monitoring and reviewing the effectiveness of the Company's internal audit function. The Audit Committee meets regularly with management and with the Group Risk Director and the internal auditor to review the effectiveness of internal controls and risk management and receives reports from the Group Risk Director on a quarterly basis.

The annual internal audit plan is approved by the Audit Committee and kept under review on a monthly basis, by the Group Risk Director, in order to reflect the changing business needs and to ensure new and emerging risks are considered. The Audit Committee is informed of any amendments made to the audit plan on a quarterly basis. The FY 2020 internal audit plan was developed through a review of formal risk assessments (in conjunction with the Risk Committee and the Group's Executive Committee) together with consideration of the Group's key business processes and functions that could be subject to audit.

A similar approach has been employed in relation to the FY 2021 internal audit plan. The principal objectives of the internal audit plan for FY 2020 were, and remain for FY 2021:

- to provide confidence that existing and emerging key risks are being managed effectively;
- to confirm that controls over core business functions and processes are operating as intended ('core assurance'); and
- to confirm that major projects and significant business change programmes are being adequately controlled.

During FY 2020, seven audit reports were issued by the Group Assurance function and reviewed by the Board or the Audit Committee.

Internal audit recommendations are closely monitored from implementation through to closure via a web-based recommendation tracking system, which efficiently assisted the overall monitoring of internal audit recommendations to ensure these are successfully implemented in a timely manner. A summary of the status of the implementation of internal audit recommendations is made monthly to the Executive Committee and quarterly to the Audit Committee.

In FY 2018, a comprehensive tender process was undertaken regarding the co-sourced Group Assurance function. PwC were successfully reappointed based upon overall merit and quality of the team, to provide Group Assurance audit services to M&B. During FY 2020, as a consequence of the deferral of the tender for the external audit appointment, as referred to later in this report, the Group Assurance function sought support from BDO LLP in delivery of its FY 2020 programme.

RISK MANAGEMENT FRAMEWORK

As disclosed in the 'Risk and uncertainties' section on pages 32 to 38 the Risk Committee continues to meet on a quarterly basis to review the key risks facing the business. Membership of the Risk Committee, which includes representation from each of the key business functions, is detailed below:

- Company Secretary and General Counsel (Chairman)
- Chief Financial Officer
- Commercial and Marketing Director
- Divisional Director (Operations)
- Group HR Director
- Director of Business Change & Technology
- Group Risk Director
- Head of Legal

Key risks identified are reviewed and assessed on a quarterly basis in terms of their likelihood and impact, and are measured on the Group's 'Key Risk Heat Map', in conjunction with associated risk mitigation plans. In addition, the Risk Committee review includes an assessment of the material relevance of emerging risks and the continued relevance of previously identified risks. During FY 2020, Risk Committee meetings continued to include a cross-functional, detailed review of the Group's key risks. This process, which was introduced in FY 2016, continues to prove to be effective and adds value to the continued development and progression of the Group's approach to evaluating new and existing risks, supported by robust mitigation plans.

Actions arising from Risk Committee meetings are followed up by the Group Risk Director. The Audit Committee reviews the Risk Committee minutes in addition to undertaking a quarterly review of the Group's 'Key Risk Heat Map'.

CONFIDENTIAL REPORTING

The Group's whistleblowing policy enables staff, in confidence, to raise concerns about possible improprieties in financial and other matters and to do so without fear of reprisal. Details of the policy are set out in the Company's Code of Ethics. The Audit Committee receives quarterly reports on whistleblowing incidents and remains satisfied that the procedures in place are satisfactory to enable independent investigation and follow up action of all matters reported. No major issues have been reported in FY 2020 (major issues being defined for this purpose as matters having a financial impact of greater than £100k). The Board also receives a report on whistleblowing in the Company Secretary's regular report to Board meetings.

EXTERNAL AUDITOR APPOINTMENT

Deloitte LLP was appointed as the auditor in 2011, following a formal tender process. The Audit Committee has considered the guidance in relation to rotation including the proposed transition rules which will be considered when recommending the appointment of the auditor in future years. The most recent audit partner rotation took place in 2016 whereby John Charlton became the lead Audit Partner and, as required, he will be replaced in FY 2021. The Company has complied throughout the reporting year with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Under the terms of that Order, the Committee agreed and put plans in place, to carry out a competitive audit tender in 2020, in respect of the financial year ending in 2021 to ensure the continued objectivity, independence and value for money of the statutory audit. However, given Government advice related to the unprecedented implications of Covid-19, the Committee concluded that it should seek FRC approval to reappoint Deloitte for one further year, and undertake the audit tender process in 2021. This approval was received on 5 October 2020.

The Audit Committee considers that the relationship with the external auditor is working well and is satisfied with its effectiveness and has not considered it necessary to require Deloitte LLP not to re-tender for the external audit work. To be clear, there are no contractual obligations restricting the Company's choice of auditor.

EXTERNAL AUDITOR'S INDEPENDENCE

The external auditor should not provide non-audit services where it might impair their independence or objectivity to do so. The Audit Committee has established a policy to safeguard the independence and objectivity of the Group's external auditor as set out below. That policy was reviewed in FY 2020 and a copy of it is appended to the Audit Committee's terms of reference and is available on the Company's website.

Pursuant to that policy the following services have been pre-approved by the Audit Committee provided that the fees for such services do not exceed in any year more than 70% of the average audit fee paid to that audit firm over the past three years:

- audit services, including work related to the annual Group financial statements and statutory accounts; and
- certain specified tax services, including tax compliance, tax planning and tax advice.

Acquisition and vendor due-diligence may only be provided if it is specifically approved by the Committee on a case by case basis in advance of the engagement commencing.

Any other work for which management wishes to utilise the external auditor must be approved as follows:

- services with fees less than £50,000 may be approved by the Chief Financial Officer; and
- engagements with fees over £50,000 fall to be approved by the Audit Committee and its Chair.

The Audit Committee remains confident that the objectivity and independence of the external auditor are not in any way impaired by reason of the non-audit services which they provide to the Group.

That policy also includes an extensive list of services which the audit firm may not provide or may only provide in very limited circumstances where the Company and the audit firm agree that there would be no impact on the impartiality of the external audit firm.

Details of the remuneration paid to the external auditor, and the split between audit and non-audit services, are set out at note 2.3 of the financial statements on page 114.

EXTERNAL AUDIT ANNUAL ASSESSMENT

The Audit Committee assesses annually the qualification, expertise, resources and independence of the Group's external auditor and the overall effectiveness of the audit process. The Chief Financial Officer, Company Secretary and General Counsel, Audit Committee Chairman and Group Risk Director meet with the external auditor to discuss the audit, significant risks and any key issues included on the Audit Committee's agenda during the year.

FAIR, BALANCED AND UNDERSTANDABLE STATEMENT

One of the key governance requirements of the Annual Report and Accounts is for the report and accounts, taken as a whole, to be fair, balanced and understandable, and that they provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy. Therefore, upon review of the financial statements, the Audit Committee and the Board have confirmed that they are satisfied with the overall fairness, balance and clarity of the Annual Report and Accounts, which is underpinned by the following:

- formal review processes at all levels to ensure the Annual Report and Accounts are factually correct;
- clear guidance being issued to all contributors to ensure a consistent approach; and
- formal minutes of the year end working group comprised of relevant internal functional representatives and appropriate external advisers.

COLIN RUTHERFORD
Chairman of the Audit Committee
25 November 2020

The Going Concern and Long-Term Viability Statement can be found on pages 44 and 39 respectively.

The Going Concern and Long-Term Viability Statement

See pages 44 and 39 respectively.

Dear fellow shareholder

I am pleased to present the Directors' remuneration report in respect of the financial period which ended on 26 September 2020.

IMELDA WALSH
Chair of the Remuneration Committee

BACKGROUND AND BUSINESS CONTEXT

The business entered the 2020 financial period with strong momentum, building on the consistent performance seen over the previous three financial periods. In the first half with like-for-like sales increasing once again and consistently outperforming the market, the business was on track to deliver another year of profit growth, despite continuing ongoing cost pressures and the uncertainty of Brexit. This performance was underpinned by strong levels of guest satisfaction and high levels of employee engagement.

As I have outlined in previous reports, Mitchells & Butlers has, for a number of years, been guided by three clear strategic priorities, to build a balanced business, instil a commercial culture and drive an innovation agenda, with the engine room for delivery our Ignite programme of initiatives. Just prior to lockdown, work had begun on a further wave of Ignite initiatives and whilst many of these were paused temporarily, planning is now underway and with a high degree of confidence that the Ignite programme will be key in our long-term recovery.

The whole of Mitchells & Butlers closed at very short notice on 20 March 2020 following the UK Government's announcement that hospitality businesses must shut. The safe and secure closedown of a business of our scale was a significant undertaking that employees tackled very effectively at a time when there was understandable concern for their own job prospects. In response to the closure of the business and the ongoing uncertainty, a number of key decisions were taken:

- All Board Directors and Executive Committee members saw their fees and salaries reduced by 40% for the duration of the closure period. In addition, some senior managers who were not required to work during the closure period saw their salaries reduced by 30%.
- Around 99% of the workforce were designated as furloughed and accessed the Coronavirus Job Retention Scheme ('CJRS'). Where employees earned above the upper earnings limit of the CJRS, their pay was topped up by the Company to 80% of pay. Therefore, no employees, other than those detailed above, received less than 80% of their normal pay during the closure period.
- A communications plan was put in place so that employees could be kept updated. This included the use of social channels, online portals and regular written and video updates from the Chief Executive and Group Human Resources Director.
- All employees were able to access wellbeing support, and during the closure period there was a substantial take up of these services. Employees were also encouraged to undertake personal development training during the closure period.

The CJRS has been an invaluable support to employees throughout the closure period, with around £165m of financial support being received as at the end of FY 2020. Our aim throughout the closure and subsequent reopening of the business has been, in line with the principles of the CJRS, to protect jobs as far as possible.

Mitchells & Butlers began to reopen in the UK from 4 July 2020 and within weeks almost all of the estate was trading. Sales during July exceeded expectations and performance improved further through August with consumer confidence boosted as a result of Eat Out to Help Out, which enabled the industry as a whole to demonstrate the measures that had been put in place to ensure guest safety. This increased confidence meant that strong trading continued into September. The additional support received from the temporary reduction in VAT and business rates relief have also been important factors in the recovery of the business.

Overall, during FY 2020 like-for-like sales fell by 3.5%. Until closure like-for-like sales were growing at 0.9%, and on track to be ahead of the market for the fourth year running.

Unfortunately, the additional restrictions that have been introduced since the start of FY 2021 have had a significant impact on our trading performance.

FY 2020 REMUNERATION OUTCOMES

Annual Bonus

The annual bonus plan for FY 2020 again had four elements: Adjusted Operating Profit[a] (hereafter referred to as Operating Profit), Guest Health, Employee Engagement and Food Safety. The plan measures reflect the overall business scorecard aligning all employees from Retail Management through to the Executive Committee.

FINANCIAL MEASURES – OPPORTUNITY 70% (OUT OF 100%)

In setting the FY 2020 Operating Profit target, the Committee again took into consideration a number of factors. The business has faced challenging cost headwinds, running at around £60m per year in each of the last three years. The outlook at the start of FY 2020 was slightly improved, with costs estimated to increase by around £55m. On this basis the Committee felt that maintaining a flat level of Operating Profit would be a very credible performance, requiring continued market leading sales growth and for many of the Ignite initiatives to deliver strongly over the financial period. The Committee were also mindful of the ongoing uncertainty regarding Brexit. Target performance (where 50% of maximum is payable) was therefore set at £317m, this being equal to the reported Operating Profit for FY 2019.

The Covid-19 pandemic has resulted in an economic shock on an unprecedented scale, and closure for a large part of the second half of the financial period had a significant adverse impact on FY 2020 performance, resulting in a full year Operating Profit of £99m. The Committee did not feel that it would be appropriate to adjust targets or exercise any discretion in the circumstances and therefore no bonus is payable in respect of the financial element of the scheme.

NON-FINANCIAL MEASURES – OPPORTUNITY 30% (OUT OF 100%)

The non-financial elements are subject to a financial performance underpin which requires 97.5% of the Operating Profit target to be achieved to trigger any payment under the non-financial element. As a result, no bonus is payable for any of the non-financial elements. Please refer to pages 82 and 83 which explain the rationale used to set targets and where applicable the outcome at the point the business was forced to close in March. Where possible an indication on performance since reopening is provided.

Performance Restricted Share Plan ('PRSP') (Nil Vesting)

The 2018/20 PRSP performance condition had two independent elements: Operating Cash Flow before separately disclosed items, movements in working capital and additional pension contributions (75% weighting and hereafter referred to as Operating Cash Flow) and relative TSR (25% weighting). Prior to the Covid-19 pandemic, vesting was projected to be above threshold for the Operating Cash Flow measure and TSR performance was tracking above median. However, the impact of the pandemic has severely impacted performance in the final year of the plan. Operating Cash Flow over the period was £1,070m and below the level required for threshold vesting (£1,306m), and TSR was below the median of the comparator group. As a result, awards under both elements lapsed. The Committee has not exercised discretion to the vesting outcome of the PRSP.

There are two other active PRSPs, covering the 2019/21 and 2020/22 performance periods. As a result of the Covid-19 pandemic the Committee does not currently anticipate any vesting from the Operating Cash Flow element of either plan.

REMUNERATION POLICY RENEWAL AND APPROACH FOR FY 2021

Our remuneration policy was approved at the 2018 Annual General Meeting ('AGM'), with 97% of shareholders voting in favour of the policy. No significant changes to the policy have been introduced since its approval although, where possible, a proactive approach has been taken to adopting emerging best practice. The Committee is committed to providing transparent disclosure and in particular we first reported our CEO pay ratio in 2016 and had already illustrated the impact of a 50% increase in share price on long-term incentive plan ('LTIP') vesting in the illustrations of remuneration policy.

Our policy is due for approval at the 2021 AGM and over the course of 2020 the Committee has undertaken a comprehensive review. However, the Committee has concluded that more time is needed to ensure that the new policy is fit for purpose in the context of the ongoing Covid-19 pandemic and the continuing challenges and uncertainties in the operating environment. Over the coming weeks it is our intention to consult with shareholders and investor groups and feedback from this process will be taken into account in determining our remuneration policy for shareholder approval. Full details of the proposed policy will then be included in the Notice of Meeting for the 2021 AGM which is due to be held on 24 March 2021. The Committee is also cognisant of a number of areas of particular focus for shareholders and the requirements of the 2018 UK Corporate Governance Code, particularly in relation to Executive pensions and post-cessation holding periods, and has discussed these issues on a number of occasions through the year. The Committee feels that it would be more straightforward to present the entire proposed policy, including addressing these important matters, in a single communication. At the same time we will also outline how the new policy will apply for FY 2021. However, I can confirm that there will be no increases to base pay for Executive Directors and that the fees of the Chairman and Non-Executive Directors will also remain unchanged for 2021.

IMELDA WALSH
Chair of the Remuneration Committee
25 November 2020

This report has been prepared on behalf of the Board and has been approved by the Board. The report has been prepared in accordance with the Companies Act disclosure regulations (the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013) (the 'Regulations').

a. The Directors use a number of alternative performance measures (APMs) that are considered critical to aid the understanding of the Group's performance. Key measures are explained on pages 161 and 162 of this report.

Executive Remuneration Summary

This section briefly highlights performance and remuneration outcomes for FY 2020, and how they compare to the current remuneration policy. More detail can be found in the Annual Report on remuneration on pages 80 to 89. Full details of the remuneration policy can be found on the mbplc.com website.

FY 2020 SINGLE FIGURE REMUNERATION FOR EXECUTIVE DIRECTORS

	Basic salaries £000	Taxable benefits £000	Short-term incentives £000	Pension-related benefits £000	Long-term incentives £000	Other £000	Total remuneration £000
Phil Urban	468	15	–	70	–	–	553
Tim Jones	391	15	–	59	–	–	465
Total	**859**	**30**	**–**	**129**	**–**	**–**	**1,018**

The single figure table sets out payments made to Executive Directors in respect of FY 2020, including base salary taking into account the 40% pay cut during the closure period, annual bonus earnings, long-term incentives, payments made in lieu of pension contributions and taxable benefits such as a company car, car allowance and healthcare cover.

FY 2020 ANNUAL BONUS

The annual bonus was based on two elements: 70% on Operating Profit and 30% on non-financial scorecard measures.

	Target (50% of maximum)	Actual
Operating Profit	£317m	£99m
Guest Health		
Net Promoter Score ('NPS')	61.0	61.9
Social Media	4.09	4.18
Complaints	0.57	0.52
Employee Engagement	81.5	80.1
Safety	98.3	98.9

Based on the above outcomes, no bonus is due to any Executive Director. The Guest Health and the Safety outcomes are the performance over the year, excluding the closed period. The employee engagement outcome is the combined score of the two Pulse surveys held in the 2020 financial period.

FY 2020 PRSP VESTING

2018/20 PRSP – performance conditions	Threshold (25%) to maximum (100%) range*	Actual	% vesting
Operating Cash Flow (75% of the award)	£1,306m to £1,336m	£1,070m	Nil
Total Shareholder Return relative to peer group** (50% weighting)	25% would vest for matching the median of the group. 100% would vest for TSR performance that exceeds the median by 8.5% p.a.	Below median	Nil

* Between threshold and maximum, vesting under each measure is on a straight-line basis. Below threshold the award will lapse.

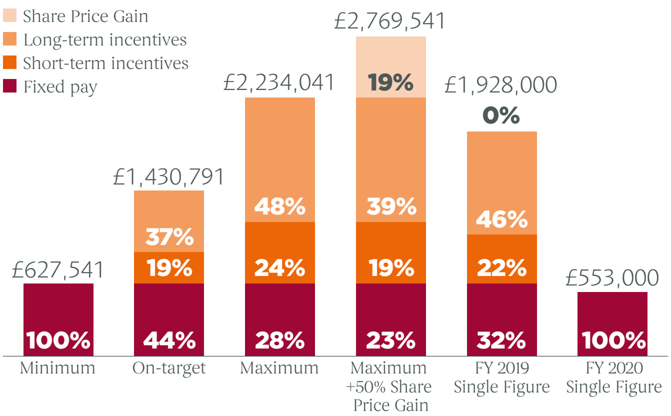
** Comprising EI Group, Greene King, Marston's, The Restaurant Group, Wetherspoon (JD) and Whitbread (the 'peer group').

Additional remuneration information

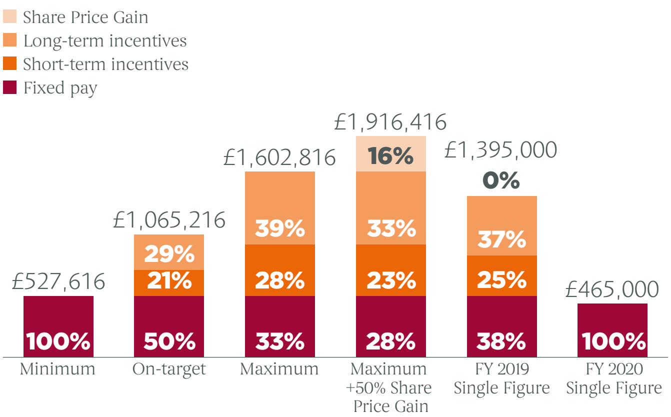
APPLICATION OF REMUNERATION POLICY

A key principle of the Group's remuneration policy is that variable short-term and long-term reward should be linked to the financial performance of the Group. The charts below show the composition of the remuneration of the Chief Executive and Chief Financial Officer at minimum, on-target and maximum levels, including the impact of a 50% increase in share price on the LTIP outcome. The charts also show the actual Single Total Figure outcome for FY 2019 and FY 2020.

Chief Executive



Chief Financial Officer



The performance scenarios demonstrate the proportion of maximum remuneration which would be payable in respect of each remuneration element at each of the performance levels. In developing these scenarios, the following assumptions have been made:

MINIMUM

Only the fixed elements of remuneration are payable. The fixed element consists of base salary, benefits and pension. Base salary is the salary effective from 1 January 2020. Benefits are based on actual FY 2020 figures and include company car allowance, healthcare and taxable expenses. Pension is the cash allowance and/or Company pension contribution payable from 1 January 2020.

ON-TARGET

In addition to the minimum, this reflects the amount payable for on-target performance under the short-term and long-term incentive plans:

- 50% of maximum (50% of base salary for the Chief Executive and Chief Financial Officer) is payable under the short-term incentive plan; and
- 50% of the award (100% of base salary for the Chief Executive and 70% of base salary for the Chief Financial Officer) is payable under the long-term incentive plan.

MAXIMUM

In addition to the minimum, maximum payment is achieved under both the short-term and long-term incentive plans such that:

- 100% of base salary is payable under the short-term incentive plan for the Chief Executive and Chief Financial Officer; and
- 200% of base salary for the Chief Executive and 140% of base salary for the Chief Financial Officer is payable under the long-term incentive plan.

SHARE PRICE GAIN

This shows the impact a 50% increase in the share price would have on the LTIP outcome.

PAY RATIOS AND GENDER PAY

The table below sets out the Chief Executive pay ratio at the median, 25th and 75th percentiles.

	Chief Executive pay ratio		
Financial year	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
2020	37:1	35:1	35:1
2019	120:1	112:1	106:1

More detail in relation to the pay ratio calculation can be found on page 88.

The table below provides a summary of gender pay data for the Group.

Financial year	**2019 %**	2018 %	2017 %
Mean Pay Gap	**6.1**	7.4	8.1
Median Pay Gap	**3.2**	4.7	5.2
Mean Bonus Gap	**33.5**	38.5	27.6
Median Bonus Gap	**15.4**	29.2	20.6

We have not yet calculated or reported on the 2020 gender pay gap due to the impact on pay resulting from the coronavirus pandemic.

In 2019, at a Group level, the pay gap reduced overall on both measures and the median pay gap compares very favourably to the current national average of 17.3%. A number of ongoing initiatives have underpinned the improvement of our gender pay gap, including the establishment of a Diversity and Inclusion Steering Group, a review of our family friendly policies and the implementation of a new talent management process. Full details can be found in our gender pay report on the Company website.

MITCHELLS & BUTLERS' REMUNERATION PRINCIPLES

Shareholder alignment

A high proportion of reward is delivered in the form of equity, ensuring Executives have strong alignment with shareholders.

Competitive

Providing reward that promotes the long-term success of the business whilst enabling the attraction, retention and motivation of high-calibre senior Executives.

Performance-linked

A significant part of an Executive's reward is linked to performance with a clear line of sight between business outcomes and the delivery of shareholder value.

Straightforward

The remuneration structure is simple to understand for participants and shareholders and is aligned to the strategic priorities of the business.

These same principles apply throughout the organisation and are adapted as appropriate for specific employee groups. A good example of this is how these principles apply to our General Managers. A competitive package is important for this group as they are fundamental to the day-to-day success of the business and the current recruitment market remains challenging in some geographical areas, with a shortage of high-calibre managers. As with Executives, a high proportion of potential reward for this group is based on performance and the overall structure is straightforward to understand. There is a lesser weighting on equity, but all General Managers can participate in any of the all employee share schemes, subject to qualifying service, therefore building their own stake in the business.

Equally the above principles are applied to our hourly paid team members. Whilst the Covid-19 pandemic has resulted in a recruitment market that has more active candidates, we have also seen immigration from the EU fall, both as a result of the pandemic and Brexit. Therefore, competitive pay remains a priority and in particular for skilled kitchen roles where there remains a shortage of high-quality talent. Although base pay for our hourly paid team members is not linked to performance, there is a strong link to performance where there are opportunities to earn tips and where a service charge is applied (100% of which are retained by the team with no administration charge), and more broadly, the good performance of the Company allows for more investment in pay. Pay structures for this group are straightforward and, as with other employees, hourly paid team members can participate in any of the all-employee share schemes, subject to qualifying service.

REMUNERATION BELOW EXECUTIVE DIRECTOR LEVEL

The table below demonstrates how the key elements of Executive pay align with the wider workforce:

<table>
<tr><th></th><th>Base pay</th><th>Bonus</th><th>Long-term incentives</th><th>All-employee share plans</th></tr>
<tr><td>Executive Directors</td><td rowspan="5">Pay broadly around mid-market levels.

Overall, increases (in percentage terms) consistent across all salaried employee groups.</td><td rowspan="5">Bonus schemes for all schemes align to the business scorecard.

The majority of bonus opportunity is linked to financial performance.</td><td rowspan="3">Measures and targets for long-term incentive plans consistent for all participants.</td><td rowspan="6">All employees can participate in any of the all-employee share schemes, subject to qualifying service, building a stake in the business.</td></tr>
<tr><td>Executive Committee</td></tr>
<tr><td>Senior management</td></tr>
<tr><td>Retail Support Centre</td><td rowspan="2"></td></tr>
<tr><td>Retail managers</td></tr>
<tr><td>Retail team members</td><td>Pay set in line with market requirements and closely monitored.

Base pay for many employees is ahead of the statutory minimums.

Many employees benefit from tip and service charge, and it is Mitchells & Butlers' policy to pass 100% of these earnings on to employees.</td><td colspan="2">Our pay approach is aimed at providing regular and predictable earnings through competitive base pay for our retail team members. This is valued more highly than variable pay elements for retail team members and is in line with our 'competitive' and 'straightforward' remuneration principles.</td></tr>
</table>

Workforce engagement

Whilst not specifically consulted on Executive remuneration, feedback from employees is gathered in a number of ways through the year as shown in the illustration below:

Remuneration Committee

Employee survey

Outcomes reviewed by the Remuneration Committee and taken into account when setting remuneration policy.

Chief Executive roadshows

The Chief Executive and CFO normally hold regular roadshows that allow both Retail Support Centre colleagues and General Managers an opportunity to discuss business issues and provide feedback.

Employee forum

Elected representatives have direct access to the Executive Committee and for Executive remuneration matters, the Remuneration Committee chair.

Overview of pay and policy decisions

Committee members are updated on employee terms and conditions and made aware of significant changes to policies and other pay related matters.

Nominated Non-Executive Director

A Non-Executive Director (Dave Coplin) has been appointed to engage with employees and report back to the Board. Dave Coplin is a member of the Remuneration Committee.

The Committee is regularly updated throughout the year on pay and conditions applying to Group employees and particularly so in FY 2020, given Covid-19 and how the Coronavirus Job Support Scheme has supported employees and the way in which the Company has communicated and engaged with employees over the course of the pandemic.

Where significant changes are proposed to employment conditions and policies elsewhere in the Group, or there are important employee related projects underway, these are highlighted for the attention of the Committee at an early stage. Over the course of FY 2020 these updates included an overview of the key people metrics across the business, including turnover rates, internal career progression and engagement. In addition, the Committee were also updated on work to retain kitchen teams and our apprenticeship strategy.

The Committee takes into account the base pay review budget applicable to other employees when considering the pay of Executive Directors. The Committee considers a broad range of reference points when determining policy and pay levels. These include external market benchmarks as well as internal reference points. Any such reference points are set in an appropriate context and are not considered in isolation.

All employees are invited to take part in our employee engagement surveys. These provide all employees with an opportunity to give anonymous feedback on a wide range of topics of interest or concern to them. The Committee reviews these results and any significant concerns over remuneration would be considered separately by the Committee and, if appropriate, taken into account when determining the remuneration policy and its implementation.

In addition, an employee forum is normally held twice every year, which gives the opportunity for employees to ask questions of senior management via elected representatives, and from FY 2020 has been attended by Dave Coplin. The last meeting took place just prior to the closure of the business in March. It is anticipated that the employee forum will recommence in early 2021, either virtually or in person.

THE MITCHELLS & BUTLERS 'PEOPLE PROMISE'

In FY 2019 we explained how our clearly defined people promise enabled us to differentiate our employment proposition, and the diagram below illustrates in more detail the elements of our people promise. Clearly pay is a very important element but other factors also play an important part of the overall value proposition, which is known internally as our 'People Promise'.

Our people value opportunities for progression, challenge within their role, fair rewards and a safe working environment. Our research has also shown that, in normal times, unlike some industries and employers, Mitchells & Butlers offers a number of important differentiators which our employees value:

- Flexibility and convenience: Mitchells & Butlers has always promoted a flexible approach to working from the frontline through to our support centre. The requirement to work remotely as a result of the Covid-19 pandemic has further demonstrated how flexibility and convenience are an ever more important factor. At the frontline, colleagues have embraced different working patterns and processes and we have been able to support employees who may not have been able to return to their normal hours on reopening.
- More job satisfaction: As part of our research we learnt that working for Mitchells & Butlers gave employees a strong sense of family and that employees put a high value on the day-to-day variety of work. This comes through very strongly in our survey results.
- A great atmosphere: Undoubtedly working in hospitality, especially at the frontline, is hard work. However, we also know that it can be great fun. Our aim at Mitchells & Butlers is to make the working environment as fun and friendly as possible whilst ensuring that guests receive great service.

Although the business was closed for a large part of the last financial period, it became clear during this time that many of the elements of our People Promise remained important and relevant to our people. For example, the fun and friendly atmosphere of working in a busy pub or restaurant was recreated virtually through a social media group that over 7,000 employees are members of. During lockdown, participants in this group created their own Mitchells & Butlers cookbook which was sold online to raise money for charity, held online DJ sessions and brought together a community of Mitchells & Butlers employees to support each other through the lockdown period and beyond. The security of working for a large organisation was also clearly something that employees valued during this period, which was reflected in our latest engagement survey.

An employee value proposition does not remain static once defined, and major events like Covid-19 will result in employees reassessing what is important to them and their work. Therefore, over the coming year a key action will be to review and refresh our research so the Mitchells & Butlers 'People Promise' remains fit for purpose.

Annual report on remuneration

This section details the remuneration payable to the Executive and Non-Executive Directors (including the Chairman) for the financial period ended 26 September 2020 and how we intend to implement our remuneration policy for the 2021 financial period. This report, along with the Chair's annual statement, will be subject to a single advisory vote at the AGM on 24 March 2021.

COMMITTEE TERMS OF REFERENCE

The Committee's terms of reference were reviewed and updated in 2019 to take account of the 2018 UK Corporate Governance Code.

The Committee's main responsibilities include:

- determining and making recommendations to the Board on the Company's executive remuneration policy and its cost;
- taking account of all factors necessary when determining the policy, the objective of which is to ensure that the remuneration policy promotes the long-term success of the Company;
- determining the individual remuneration packages of the Executive Directors and other senior Executives (including the Company Secretary and all direct reports to the Chief Executive), and in discussion with the Executive Directors, the Company Chairman;
- having regard to the pay and employment conditions across the Company when setting the remuneration of individuals under the remit of the Committee; and
- aligning Executive Directors' interests with those of shareholders by providing the potential to earn significant rewards where significant shareholder value has been delivered.

COMMITTEE MEMBERSHIP AND OPERATION

Committee members and their respective appointment dates are detailed in the table below.

Name	Date of appointment to the Committee
Imelda Walsh (Chair)*	11 July 2013
Colin Rutherford*	11 July 2013
Bob Ivell	11 July 2013
Eddie Irwin	11 July 2013
Dave Coplin*	29 Feb 2016
Josh Levy	20 July 2017
Jane Moriarty *	27 February 2019
Susan Murray *	8 March 2019

* Independent Non-Executive Directors.

COMMITTEE ACTIVITY DURING THE YEAR

The Committee met six times during the year and key agenda items included the following:

October 2019	• CEO Pay Review
	• Executive Committee Pay Review
	• Short and Long Term Incentive Plan targets
	• Executive Pension Contributions
	• Clawback and Malus Provisions
November 2019	• 2019 Bonus Approval
	• 2017/19 Long-Term Incentive Plan vesting
	• 2020/22 Long-Term Incentive Plan targets
March 2020	• Review of workforce terms and conditions
	• Remuneration Policy Review
	• All Employee Share Schemes
April 2020	• Adjustments to salaries and fees for Board and Executive Committee members
July 2020	• Remuneration Policy Review
	• Market Practice update
September 2020	• Remuneration Policy Review
	• Covid-19 Employee Response update

ADVICE TO THE COMMITTEE

The Committee received advice from PwC LLP ('PwC') during the year. PwC were appointed following a competitive tender process during 2018. PwC are signatories to the Remuneration Consultants Group Code of Conduct and any advice received is governed by that Code. Total fees payable in respect of remuneration advice to the Committee in the reporting year totalled £43,125[1] and were charged on a time and materials basis.

Advice was also received from the Company's legal advisers, Freshfields Bruckhaus Deringer LLP, on the operation of the Company's employee share schemes and on corporate governance matters. Clifford Chance LLP also provided advice in relation to pension schemes.

The Committee is satisfied that the advice received from its advisers was objective and independent.

Members of management including Susan Martindale, the Group HR Director and Craig Provett, the Director of Compensation and Benefits, are invited to attend meetings on remuneration matters where appropriate. They are not present when matters affecting their own remuneration arrangements are discussed. The Company Chairman does not attend Board or Committee meetings when his remuneration is under review. Phil Urban and Tim Jones were present at meetings where the Company's long-term and short-term incentive arrangements and share schemes were discussed. However, each declared an interest in the matters under review.

1. Fees are shown net of VAT. 20% VAT was paid on the advisers' fees shown above.

STATEMENT OF VOTING AT THE AGM

At the last AGM (held on 21 January 2020), the resolution on the Annual report on remuneration was subject to an advisory vote. Set out in the table below are details of the relevant shareholder votes:

	Votes cast	Votes for[a]	%	Votes against	%	Votes withheld[b]
Annual report on remuneration	373,471,624	370,218,405	99.13	3,253,219	0.87	163,019

Our Directors' Remuneration Policy was approved at the 2018 AGM on 23 January 2018, and the voting outcomes were as follows:

	Votes cast	Votes for[a]	%	Votes against	%	Votes withheld[b]
Remuneration Policy	368,083,115	357,056,085	97.00	11,027,030	3.00	244,331

a. The 'For' vote includes those giving the Company Chairman discretion.
b. A vote withheld is not a vote in law and is not counted in the calculation of the votes 'For' or 'Against' the resolution.

Votes 'For' and 'Against' are expressed as a percentage of votes cast.

PAY OUTCOMES

The tables and related disclosures set out on pages 81 to 85 on Directors' remuneration, deferred annual bonus share awards ('STDIP'), PRSP share options, Share Incentive Plan and pension benefits have been audited by Deloitte LLP.

DIRECTORS' REMUNERATION

The tables below set out the single figure remuneration received by the Executive Directors and the Non-Executive Directors during the reporting year. Details of performance under the annual bonus plan are set out on pages 82 and 83.

EXECUTIVE DIRECTORS

	Basic salaries[a] £000		Taxable benefits[b] £000		Short-term incentives £000		Pension related benefits[c] £000		Long-term incentives[d] £000		Other[e] £000		Total remuneration £000		Total fixed pay £000		Total variable pay £000	
	FY 2020	FY 2019	**FY 2020**	FY 2019	**FY 2020**	FY 2019	**FY 2020**	FY 2019	**FY 2020**	FY 2019	**FY 2020**	FY 2019	**FY 2020**	FY 2019	**FY 2020**	FY 2019	**FY 2020**	FY 2019
Phil Urban[e]	**468**	516	**15**	16	**–**	423	**70**	91	**–**	879	**–**	3	**553**	1,928	**553**	626	**–**	1,302
Tim Jones[e]	**391**	432	**15**	16	**–**	354	**59**	76	**–**	514	**–**	3	**465**	1,395	**465**	527	**–**	868
Sub-total Executive Directors	**859**	948	**30**	32	**–**	777	**129**	167	**–**	1,393	**–**	6	**1,018**	3,323	**1,018**	1,153	**–**	2,170

NON-EXECUTIVE DIRECTORS

	Fees[a] £000		Taxable benefits[f] £000		Short-term incentives £000		Pension related benefits £000		Long-term incentives £000		Other £000		Total remuneration £000		Total fixed pay £000		Total variable pay £000	
	FY 2020	FY 2019	**FY 2020**	FY 2019	**FY 2020**	FY 2019	**FY 2020**	FY 2019	**FY 2020**	FY 2019	**FY 2020**	FY 2019	**FY 2020**	FY 2019	**FY 2020**	FY 2019	**FY 2020**	FY 2019
Bob Ivell	**249**	284	**1.5**	2	**–**	–	**–**	–	**–**	–	**–**	–	**250.5**	286	**250.5**	286	**–**	–
Ron Robson	**46**	53	**–**	1	**–**	–	**–**	–	**–**	–	**–**	–	**46**	54	**46**	54	**–**	–
Stewart Gilliland[g]	**–**	16	**–**	0.5	**–**	–	**–**	–	**–**	–	**–**	–	**–**	16.5	**–**	16.5	**–**	–
Eddie Irwin	**46**	53	**–**	1	**–**	–	**–**	–	**–**	–	**–**	–	**46**	54	**46**	54	**–**	–
Colin Rutherford	**58**	65	**0.5**	2	**–**	–	**–**	–	**–**	–	**–**	–	**58.5**	67	**58.5**	67	**–**	–
Imelda Walsh	**58**	65	**–**	1	**–**	–	**–**	–	**–**	–	**–**	–	**58**	66	**58**	66	**–**	–
Josh Levy	**46**	53	**0.5**	1	**–**	–	**–**	–	**–**	–	**–**	–	**46.5**	54	**46.5**	54	**–**	–
Dave Coplin	**58**	57	**1**	0.5	**–**	–	**–**	–	**–**	–	**–**	–	**59**	57.5	**59**	57.5	**–**	–
Keith Browne	**46**	53	**–**	1	**–**	–	**–**	–	**–**	–	**–**	–	**46**	54	**46**	54	**–**	–
Susan Murray[h]	**58**	37	**0.5**	–	**–**	–	**–**	–	**–**	–	**–**	–	**58.5**	37	**58.5**	37	**–**	–
Jane Moriarty[h]	**46**	30	**1**	–	**–**	–	**–**	–	**–**	–	**–**	–	**47**	30	**47**	30	**–**	–
Sub-total Non-Executive Directors	**711**	766	**5**	10	**–**	–	**–**	–	**–**	–	**–**	–	**716**	776	**716**	776	**–**	–
Total Executive Directors and Non-Executive Directors	**1,570**	1,714	**35**	42	**–**	777	**129**	167	**–**	1,393	**–**	6	**1,734**	4,099	**1,734**	1,929	**–**	2,170

a. Both Executive and Non-Executive Directors waived a proportion of their salary/fees during the business closure period. The value of this waiver was £62,441 for the Chief Executive and £52,238 for the Chief Financial Officer.
b. Taxable benefits for the year comprised car allowance, healthcare and taxable expenses.
c. Based on the value of supplements paid in lieu of contributions to the Company Scheme.
d. The value of the PRSP vesting in 2019 has been amended to reflect the actual value at vesting, which was estimated in the 2019 Annual Report.
e. Includes the award of free shares awarded under the SIP.
f. Taxable benefits for Non-Executive Directors include cash payments made or accounted for by the Company relating to the reimbursement of expenses (and the value of personal tax on those expenses).
g. Stewart Gilliland stepped down from the Board on 31 December 2018.
h. Jane Moriarty and Susan Murray were appointed to the Board on 27 February 2019 and 8 March 2019 respectively.

ANNUAL BONUS AND STDIP

The annual bonus and STDIP operate as set out in our remuneration policy which is available on the Company's website. Details of the measures and targets applying to the FY 2020 plan are set out below:

	Threshold – 95% of Target (% of salary payable)	Target (% of salary payable)	Maximum – 103% of Target (% of salary payable)	Outcome (% of salary payable)
Adjusted Operating Profit (70%)	£301m	£317m	£326.5m	£99m
	(0%)	(35%)	(70%)	(0%)

	Target	Calculation of outcome (% of salary payable)	Performance (Score)	Outcome (% of salary payable)
Guest Health (15%)				
Net Promoter Score ('NPS')	61.0	Each element is scored 1 if better than target, 0 if on target, and -1 if below target. • If the sum of these scores is +3 then maximum bonus is paid. (15%) • If the sum of these scores is +1 or +2 then an on-target payment would be made. (7.5%) • If the sum of these scores is 0 then threshold bonus is paid. (3.75%)	61.9	Nil
Social Media Score (reputation.com)	4.09		4.18	
Complaints Ratio	0.57		0.52	

	Threshold (% of salary payable)	Target (% of salary payable)	Maximum (% of salary payable)	Outcome (% of salary payable)
Employee Engagement (10%)*	80.5	81.5	82.5	80.1
	(2.5%)	(5%)	(10%)	Nil

	Target (% of salary payable)	Outcome (% of salary payable)
Food Safety (5%)	98.3	98.9
	(5%)	Nil

* Payout is on a straight-line basis between points.

FINANCIAL MEASURES – MAXIMUM 70% (OUT OF 100%)

Operating Profit (outcome 0% out of 70%)

In setting the FY 2020 Operating Profit target, the Committee again took into consideration a number of factors. The business has faced challenging cost headwinds running at around £60m per year in each of the last three years. The outlook at the start of FY 2020 was slightly improved, with costs estimated to increase by around £55m. On this basis the Committee felt that maintaining a flat level of Operating Profit would be a very credible performance, requiring continued market leading sales growth and for many of the Ignite initiatives to deliver strongly over the financial period. The Committee were also mindful of the ongoing uncertainty regarding Brexit. Target performance (where 50% of maximum was payable) was therefore set at £317m, this being equal to the reported Operating Profit for FY 2019.

The Covid-19 pandemic has resulted in an economic shock on an unprecedented scale, and the closure of the business for a large part of the second half of the financial period had a significant adverse impact on FY 2020 performance, resulting in a full year Operating Profit of £99m. The Committee did not feel that it would be appropriate to adjust targets or exercise any discretion in the circumstances and therefore no bonus is payable in respect of the financial element of the scheme.

NON-FINANCIAL MEASURES – MAXIMUM 30% (OUT OF 100%)

The non-financial elements are subject to a financial performance underpin which requires 97.5% of the Operating Profit target to be achieved to trigger any payment under the non-financial element. As a result, no bonus is payable for any of the non-financial elements. The section below explains the rationale used to set targets and where applicable the outcome at the point the business was forced to close in March and, where possible, an indication on performance since reopening is provided.

Guest Health (outcome 0% out of 15%)

The measurement of Guest Health at Mitchells & Butlers comprises a combination of three elements: Net Promoter Score ('NPS'); a social media score (reputation.com); and guest complaints. This rounded assessment ensures that Guest Health is measured comprehensively and does not rely on a single measure. All three elements were measured up to the point the business closed in March. On reopening in July, only the reputation.com and complaint scores were measured. The reputation.com score is now considered to be the primary measure of guest satisfaction across the business as it captures the greatest amount of data on guest experience.

The reputation.com target for FY 2020 was set at 4.09. Achieving this target would have required year-on-year growth at the same level as seen in FY 2019, where the reputation.com score was at its highest ever level. This was an ambitious target, as improvements above a 4.0 score become progressively more difficult. Broadly speaking, a 0.1 increase would require around 100,000 additional 4 or 5 ratings, or the conversion of around 50,000 scores from below 4 to over 4. At the point the business was forced to close in March, the year to date score was 4.12. From reopening, reputation.com scores have been at a record level, with an overall score between reopening and the financial period end of 4.3. leading to an overall score across the year of 4.18.

For FY 2020 the NPS target was set at 61, a stretch from the FY 2019 outturn which was 60.3. The guest complaints score was set at 0.57 complaints per 1,000 meals, the first time a target has been set below 0.60 complaints per 1,000 meals, and the overall score for the year was 0.52.

Employee engagement (outcome 0% out of 10%)
A clear correlation has been established between employee engagement and guest satisfaction, which, in turn, has a positive impact on sales performance. The overall score in FY 2019 was 81.3, the highest ever engagement score recorded at Mitchells & Butlers. The target set for FY 2020 was 81.5, a modest increase over the prior year. Normally two surveys are conducted each year, a comprehensive survey in June supplemented by a shorter 'Pulse' survey in February. Overall, around two-thirds of our employees contribute to these surveys, providing valuable and robust insight into employee satisfaction.

The February Pulse survey took place as normal in FY 2020, just prior to the business closing, but the decision was taken to not proceed with the main survey and instead a further Pulse survey took place at the end of FY 2020. This meant that employee engagement was measured pre and post the closure period. The combined engagement score across both surveys was 80.1, which in the circumstances is a very good performance. An additional non-scoring wellbeing survey was also undertaken during the business closure period to understand how well employees had coped with lockdown and also to understand any concerns about returning to work. Overall employees felt that they had coped with lockdown and that the support and communication from the Company throughout the lockdown period was helpful. Employees also felt reassured by the Covid-safe procedures put in place on reopening.

Food safety (outcome 0% out of 5%)
This measure of Food Safety is based on the number of businesses that achieve either a 4 or 5 rating in the independently operated National Food Hygiene Rating System ('NFHRS'). The stretching target set for FY 2020 was for 98.3% of businesses to achieve a score of either 4 or 5 over the year and at the time of closure the score was 98.8%.

Final bonus outcome
Prior to the closure of the business, performance was strong across all annual bonus measures. The Covid-19 pandemic has had a significant adverse impact on trading performance and, in turn, the financial performance of the business and as a result no bonus is due under any element.

LONG-TERM INCENTIVES VESTING DURING THE YEAR

2018/20 PRSP – performance conditions	Threshold (25%) to maximum (100%) range**	Actual	% vesting
Operating Cash Flow (75% of the award)	£1,306m to £1,336m	£1,070	Nil
Total Shareholder Return relative to peer group* (50% weighting)	25% will vest for matching the median of the group. 100% will vest for TSR performance that exceeds the median by 8.5% p.a.	Below median	Nil

* Comprising EI Group, Greene King, Marston's, The Restaurant Group, Wetherspoon (JD) and Whitbread (the 'peer group').
** Between threshold and maximum, vesting under each measure is on a straight-line basis. Below threshold the award will lapse.

The 2018/20 PRSP performance condition had two independent elements. Operating Cash Flow before separately disclosed items, movements in working capital and additional pension contributions (75% weighting and hereafter referred to as Operating Cash Flow) and relative TSR (25% weighting). Prior to the Covid-19 pandemic, vesting was projected to be above threshold for Operating Cash Flow and TSR performance was tracking above median, however the impact of the pandemic has severely impacted performance in the final year of the plan. Operating Cash Flow over the period was £1,070m and below the level required for threshold vesting (£1,306m), and TSR was below the median of the comparator group. As a result, the awards under both elements lapsed.

There are two other active sets of awards under the PRSP, covering the 2019/21 and 2020/22 performance periods. As a result of the Covid-19 pandemic the Committee does not currently anticipate any vesting from the Operating Cash Flow element of either set of awards.

LONG-TERM INCENTIVE AWARDS MADE DURING FY 2020
An award for 2020/22 was made to the Chief Executive and the Chief Financial Officer in November 2019 in accordance with the rules of the PRSP and within the approved Remuneration Policy.

The performance measures were unchanged, with two independent elements, Operating Cash Flow (75% weighting) and relative TSR (25% weighting).

In setting the target range for the 2020/22 award, the Committee considered the anticipated future cost headwinds and the potential benefits from Ignite initiatives.

	Threshold vesting target*	Maximum vesting target*
1. Operating Cash Flow (75% of the award)	£1,509m (25% vests)	£1,539m (100% vests)
2. Total Shareholder Return ('TSR') relative to a peer group of comparator companies (25% of the award)**	25% will vest for matching the median of the group	100% will vest for TSR performance that exceeds the median by 8.5% p.a.

* Between threshold and maximum, vesting under each measure is on a straight-line basis. Below threshold the award will lapse.
** Comprising the FTSE All Share Travel & Leisure index (the 'peer group').

The Operating Cash Flow target is on a post IFRS 16 basis. Options that vest under the TSR element are subject to a share price underpin and if this underpin is not met, then the vested option will lapse.

The Operating Cash Flow and TSR conditions are measured over three years from the start of the financial period in which they are granted and any shares that vest are subject to a further two year holding period. Full details of awards made to Executive Directors under the PRSP are set out below:

	Nil Cost Options awarded during the year to 26/09/20	Basis of award (% of basic annual salary)	Award date	Market price per share used to determine the award (p)*	Actual/ planned vesting date**	Latest lapse date	Face value*** £
Executive Directors							
Phil Urban	228,320	200	26/11/19	455.5	Nov 22	Nov 24	1,066,254
Tim Jones	133,698	140	26/11/19	455.5	Nov 22	Nov 24	624,370
Total	**362,018**						**1,690,624**

* Market price is the middle market quotation on the day prior to the award being made.
** The performance period ends on 24 September 2022.
*** Face value is the maximum number of shares that would vest (excluding any dividend shares that may accrue) if the performance measure (as described above) is met in full, multiplied by the middle market quotation of a Mitchells & Butlers share on the day the award was made (467p).

The aggregate option price of each award is £1. Performance measurement under the PRSP, which is not re-tested, is reviewed and certified by the Company's auditor.

ALL-EMPLOYEE SIP & SHARESAVE

No awards were made to any employees as part of the all-employee SIP or Sharesave during FY 2020 as over 99% of employees were furloughed during the normal invitation window.

PRSP, STDIP AND OTHER SHARE AWARDS

The table below sets out details of the Executive Directors' outstanding awards under the PRSP, STDIP and Sharesave (SAYE).

Name of Director	Scheme	Number of shares at 29 September 2019	Granted during the period	Date of grant	Lapsed during the period	Exercised during the period	Number of shares at 26 September 2020	Date from which exercisable	Expiry date
Phil Urban	PRSP 2017/19[a]	397,970	–	Nov 2016	208,736	189,234	–	Nov 2019	Nov 2021
	PRSP 2018/20[b]	393,517	–	July 2018	–	–	393,517	Nov 2020	Nov 2022
	PRSP 2019/21[b]	375,000	–	Nov 2018	–	–	375,000	Nov 2021	Nov 2023
	PRSP 2020/22[b]	–	228,320	Nov 2019	–	–	228,320	Nov 2022	Nov 2024
	STDIP 2017	14,320	–	Dec 2017	–	14,320	–	Dec 2018[c]	Dec 2019
	STDIP 2018	36,988	–	Dec 2018	–	18,494	18,494	Dec 2019[c]	Dec 2020
	STDIP 2019	–	46,965	Dec 2019	–	–	46,965	Dec 2020[c]	Dec 2021
	SAYE 2018	7,317	–	June 2018	–	–	7,317	Oct 2021	Mar 2022
	Total	**1,225,112**	**275,285**		**208,736**	**222,048**	**1,069,613**		
Tim Jones	PRSP 2017/19[a]	232,968	–	Nov 2016	122,192	110,776[d]	–	Nov 2019	Nov 2021
	PRSP 2018/20[b]	230,361	–	July 2018	–	–	230,361	Nov 2020	Nov 2022
	PRSP 2019/21[b]	219,521	–	Nov 2018	–	–	219,521	Nov 2021	Nov 2023
	PRSP 2020/22[b]	–	133,698	Nov 2019	–	–	133,698	Nov 2022	Nov 2024
	STDIP 2017	11,975	–	Dec 2017	–	11,975	–	Dec 2018[c]	Dec 2019
	STDIP 2018	30,932	–	Dec 2018	–	15,466	15,466	Dec 2019[c]	Dec 2020
	STDIP 2019	–	39,285	Dec 2019	–	–	39,285	Dec 2020[c]	Dec 2021
	SAYE 2018	7,317	–	June 2018	–	–	7,317	Oct 2021	Mar 2022
	Total	**733,074**	**172,983**		**122,192**	**138,217**	**645,648**		

a. 50% of this PRSP award is subject to a TSR condition and the other 50% is subject to adjusted EPS growth targets.
b. 75% of this PRSP award is subject to an Operating Cash Flow target and the remaining 25% is subject to a TSR condition.
c. Shares are released in two equal tranches, 12 and 24 months after grant. Date shown is first release date.
d. The market value of these shares on the date of exercise was £843,983 in respect of Phil Urban's award and £494,016 for Tim Jones. The exercise price was £1.

DIRECTORS' INTERESTS

Executive Directors are expected to hold Mitchells & Butlers shares in line with the shareholding guideline set out in the remuneration policy report.

This requires the Chief Executive to accumulate Mitchells & Butlers shares to the value of a minimum of 200% of salary (150% of salary for other Executive Directors) through the retention of shares arising from share schemes (on a net of tax basis) or through market purchases. Phil Urban's shareholding at 26 September 2020 was 73.5% of his basic annual salary (2019 76.6%) and Tim Jones' shareholding was 65.1% of his basic annual salary (2019 78.3%) and as a result the shareholding guideline is not met.

If deferred annual bonus shares that are due to be released in December 2020 are taken into account on a net of tax basis, the Chief Executive's shareholding would be 80.3% of base salary and the Chief Financial Officer's 71.8% of base salary.

Executive Directors' shareholdings are calculated based on the average share price over the final three months of the financial period; for FY 2020 this was 163.2p (FY 2019 327.9p). Prior to the Covid-19 pandemic, based on the projected outcomes for both short-term and long-term incentive plans for FY 2020, it was anticipated that both Executive Directors would have met the shareholding requirement by the end of 2020.

The interests of the Directors in the ordinary shares of the Company as at 26 September 2020 and 28 September 2019 are as set out below:

	Wholly owned shares without performance conditions[a]		Shares with performance conditions		Unvested options/awards without performance conditions[b]		Unvested options/awards with performance conditions[c]		Vested but unexercised options		Total shares/options	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Executive Directors												
Phil Urban	**241,283**	121,455	**–**	–	**72,776**	58,625	**996,837**	1,166,487	**–**	–	**1,310,896**	1,346,567
Tim Jones	**178,664**	103,852	**–**	–	**62,068**	50,224	**583,580**	682,850	**–**	–	**824,312**	836,926
Non-Executive Directors												
Bob Ivell	**12,006**	12,006	**–**	–	**–**	–	**–**	–	**–**	–	**12,006**	12,006
Ron Robson	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Eddie Irwin	**31,560**	31,560	**–**	–	**–**	–	**–**	–	**–**	–	**31,560**	31,560
Colin Rutherford	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Imelda Walsh	**7,500**	7,500	**–**	–	**–**	–	**–**	–	**–**	–	**7,500**	7,500
Dave Coplin	**2,042**	2,042	**–**	–	**–**	–	**–**	–	**–**	–	**2,042**	2,042
Josh Levy	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Keith Browne	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Susan Murray	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Jane Moriarty	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Total	**473,055**	278,415	**–**	–	**134,844**	108,849	**1,580,417**	1,849,337	**–**	–	**2,188,316**	2,236,601

a. Includes Free Shares and Partnership Shares granted under the SIP.
b. Options granted under the Sharesave as detailed in the table on page 84 and deferred bonus awards granted under the STDIP.
c. Options granted under the PRSP as detailed in the table on page 84.

Directors' shareholdings (shares without performance conditions) include shares held by persons closely associated with them.

The above shareholdings are beneficial interests and are inclusive of Directors' holdings under the Share Incentive Plan (both Free Share and Partnership Share elements).

Phil Urban and Tim Jones each acquired 168 shares under the Partnership Share element of the Share Incentive Plan between the end of the financial period and 25 November 2020. There have been no changes in the holdings of any other Directors since the end of the financial period. A further update on the holdings of the Directors since the end of the financial period will be included in the Notice of Meeting.

None of the Directors has a beneficial interest in the shares of any subsidiary or in debenture stocks of the Company or any subsidiary.

The market price per share on 26 September 2020 was 135p and the range during the year to 26 September 2020 was 100p to 471p per share.

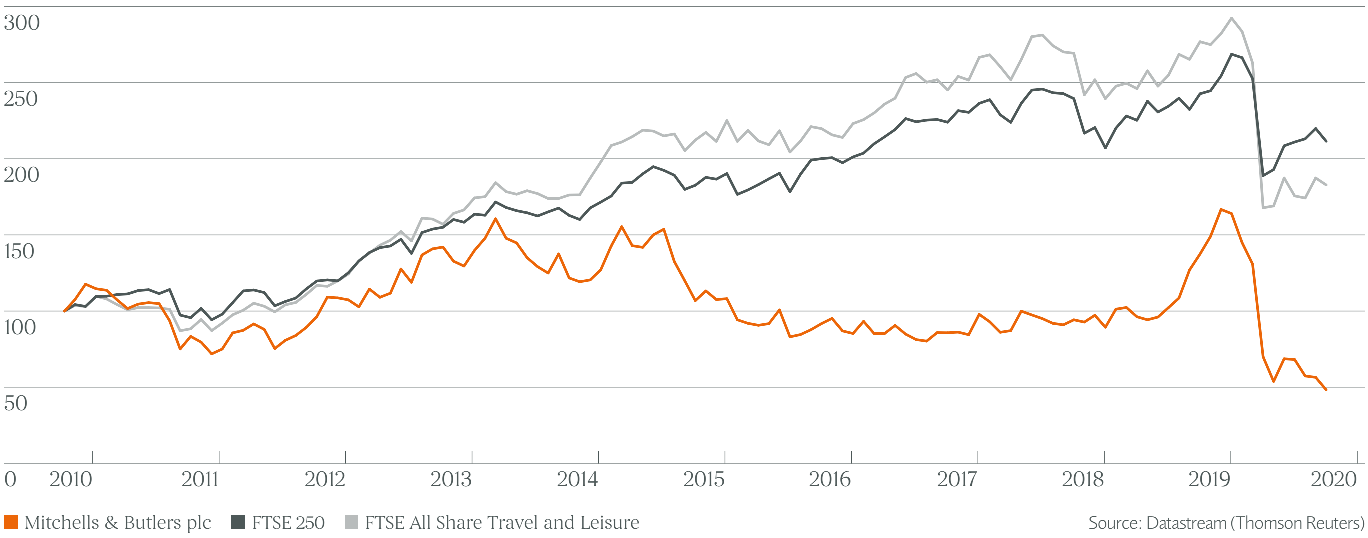
The Executive Directors as a group beneficially own 0.1% of the Company's shares.

FEES FOR EXTERNAL DIRECTORSHIPS
No external non-executive directorships were held by either Executive Director during the year to 26 September 2020.

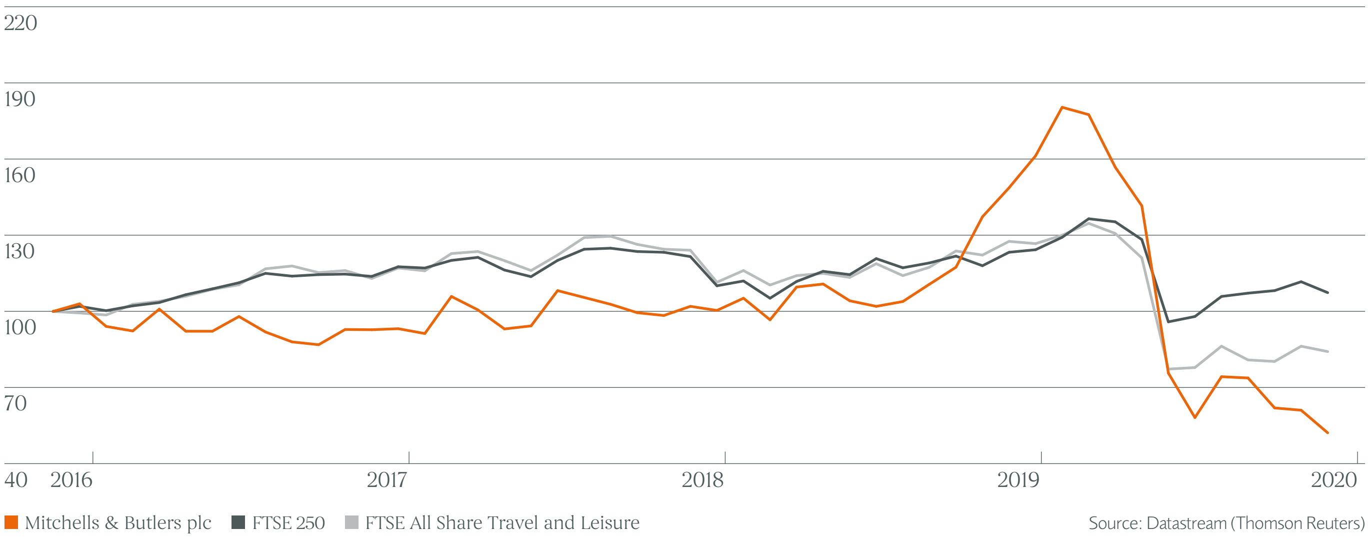
PAYMENT FOR LOSS OF OFFICE
No payments for loss of office were made in the year ended 26 September 2020.

PAYMENTS TO PAST DIRECTORS
No payments were made to any past Directors in the year ended 26 September 2020.

Total shareholder return from September 2010 to September 2020 (rebased to 100)
This graph shows the value, by 26 September 2020, of £100 invested in Mitchells & Butlers plc on 26 September 2010, compared with the value of £100 invested in the FTSE 250 and the FTSE All Share Travel and Leisure index.



The graph below illustrates the TSR performance over the past four years, which reflects the performance achieved under the current Chief Executive. At the start of this four year period the Chief Executive had been in position for a year and had completed a strategic review of the business, identifying three strategic priorities and had commenced the first wave of Ignite initiatives. Over the period, the performance of the business has steadily improved as further Ignite initiatives have been implemented and this continued until the start of the Covid-19 pandemic.



CEO EARNINGS HISTORY

Year ended	25/09/10	24/09/11	29/09/12	28/09/13	27/09/14	26/09/15	24/09/16	30/09/17	29/09/18	28/09/19	**26/09/20**
Phil Urban											
Single figure remuneration (£000)	–	–	–	–	–	–	613	770	819	1,684	**553**
Annual bonus outcome (% of max)	–	–	–	–	–	–	–	28	39	82	**–**
LTIP vesting outcome (% of max)	–	–	–	–	–	–	–	–	–	47.5	**–**
Alistair Darby											
Single figure remuneration (£000)	–	–	–	982[a]	642	878	–	–	–	–	**–**
Annual bonus outcome (% of max)	–	–	–	71.0	–	–	–	–	–	–	**–**
LTIP vesting outcome (% of max)	–	–	–	n/a	n/a	19.0	–	–	–	–	**–**
Bob Ivell											
Single figure remuneration (£000)	–	–	557	69[b]	–	–	–	–	–	–	**–**
Annual bonus outcome (% of max)	–	–	n/a[c]	n/a[c]	–	–	–	–	–	–	**–**
LTIP vesting outcome (% of max)	–	–	n/a[c]	n/a[c]	–	–	–	–	–	–	**–**
Jeremy Blood											
Single figure remuneration (£000)	–	397	50	–	–	–	–	–	–	–	**–**
Annual bonus outcome (% of max)	–	–[d]	n/a[c]	–	–	–	–	–	–	–	**–**
LTIP vesting outcome (% of max)	–	n/a[c]	–	–	–	–	–	–	–	–	**–**
Adam Fowle											
Single figure remuneration (£000)	1,315	483[e]	–	–	–	–	–	–	–	–	**–**
Annual bonus outcome (% of max)	87.6	16.0	–	–	–	–	–	–	–	–	**–**
LTIP vesting outcome (% of max)	16.2	24.2	–	–	–	–	–	–	–	–	**–**

a. Alistair Darby formally took up the position of CEO on 12 November 2012 following a short period of induction and handover. The figure shown reflects the date of his appointment to the Board (8 October 2012).
b. Figure shown is up to and including 11 November 2012 as Bob Ivell remained Executive Chairman to this date.
c. The Director was not a participant in the plan.
d. Jeremy Blood was not a participant in the short-term incentive plan. At the discretion of the Board a payment of £100,000 was made in respect of his contribution as Interim Chief Executive. This payment is included in the single remuneration figure (£397,000) above. Earnings exclude the fee payable for the period 26 September 2010 to 14 March 2011 during which Mr Blood served as a Non-Executive Director.
e. Earnings disclosed are to 15 March 2011 when Mr Fowle stepped down as CEO.

YEAR-ON-YEAR CHANGE IN REMUNERATION OF DIRECTORS COMPARED TO AN AVERAGE EMPLOYEE

	2020		
	Salary/Fees	**Bonus**	**Benefits**
Average employee	**+4.8%**	**-76.1%**	**+4.7%**
Executive Directors			
Phil Urban	**+3.0%**	**-100.0%**	**-7.4%**
Tim Jones	**+2.9%**	**-100.0%**	**-6.7%**
Non-Executive Directors			
Bob Ivell	**0.0%**	**0.0%**	**-25.4%**
Ron Robson	**0.0%**	**0.0%**	**-0.0%**
Eddie Irwin	**0.0%**	**0.0%**	**-0.0%**
Colin Rutherford	**0.0%**	**0.0%**	**-0.0%**
Imelda Walsh	**0.0%**	**0.0%**	**-74.0%**
Dave Coplin	**0.0%**	**0.0%**	**225.1%**
Josh Levy	**0.0%**	**0.0%**	**-59.2%**
Keith Browne	**0.0%**	**0.0%**	**100.0%**
Susan Murray	**0.0%**	**0.0%**	**157.6%**
Jane Moriarty	**0.0%**	**0.0%**	**443.9%**

Salaries and fees are based on rates at the year-end date on a full time equivalent ('FTE') basis. Hourly paid employees do not participate in any bonus scheme and are not eligible for taxable benefits. The figures shown for these elements are based on the year-on-year change for eligible employees.

The figures for Executive Directors do not include LTIP awards or pension benefits that are disclosed in the single figure table. The benefit figures for Non-Executive Directors relate to taxable expenses as detailed in the single figure table on page 81. Susan Murray and Jane Moriarty did not serve a full financial period in FY 2019.

PAY RATIOS

The table below sets out the Chief Executive pay ratio at the median, 25th and 75th percentiles for 2020, compared to 2019. Data is also presented for 2018 as Mitchells & Butlers has disclosed the pay ratio between the Chief Executive and the median pay of other employees for the last three years, despite not needing to comply with this requirement until the 2020 Annual Report.

	Chief Executive pay ratio			
Financial year	Method	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
2020	**Option C**	**37:1**	**35:1**	**35:1**
2019	Option C	120:1	112:1	106:1
2018	Option C	61:1	58:1	52:1

The lower quartile, median and upper quartile employees were calculated based on full-time equivalent base pay data as at 26 September 2020. This calculation methodology was selected as the data was felt to be the most accurate way of identifying the best equivalents of P25, P50 and P75 and, therefore, the most accurate measurement of our pay ratios. Of the three allowable methodologies under the legislation, this method is classed as 'Option C'. Option A was considered but given the high levels of team member turnover, it was felt more appropriate to adopt the approach set out above.

The employee pay data has been reviewed and the Committee is satisfied that it fairly reflects the relevant quartiles given the very large proportion of hourly paid team members employed by Mitchells & Butlers (circa 85% of the total workforce). The three representative employees used to calculate the pay ratios are hourly paid and the base pay elements were calculated using a full-time equivalent hourly working week of 35 hours. Hourly paid employees do not participate in the annual bonus plan or long-term incentive plan and in most cases do not have any taxable benefits. Employee pay does not include earnings from tips and service charge, from which many employees benefit. It is Mitchells & Butlers' policy to pass all earnings from tips and service charges to employees without deduction for administration. The calculations are based on the single figure methodology.

Pay details for the individuals are set out below:

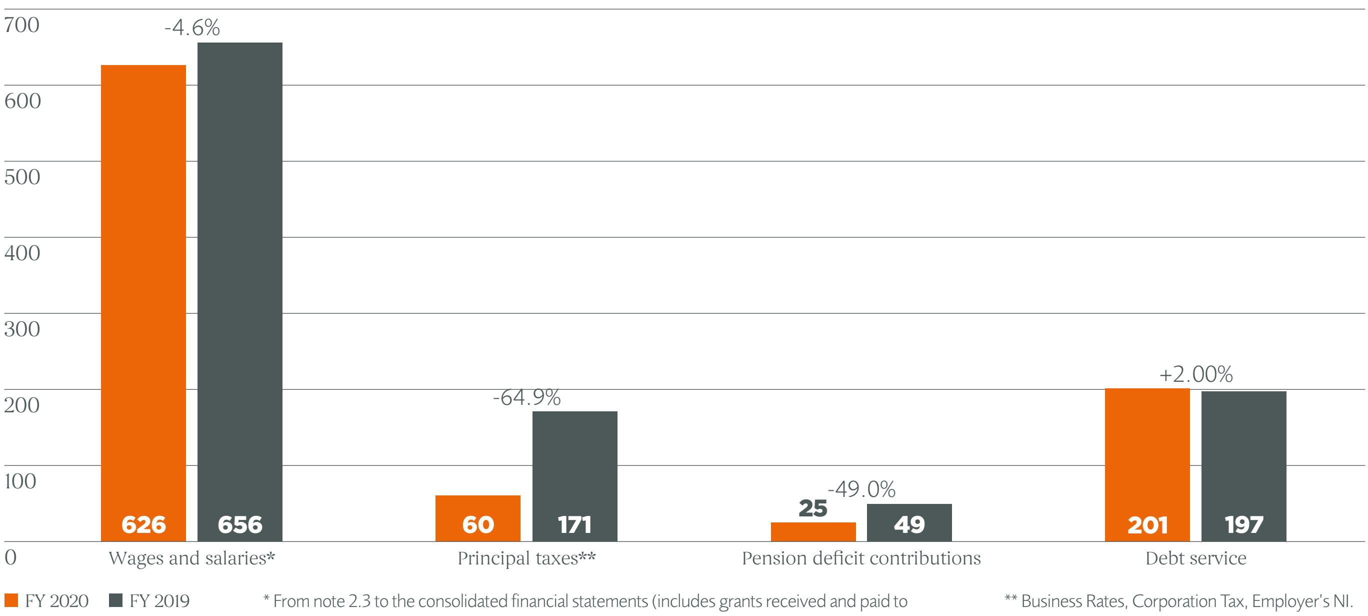
	Chief Executive (£)	P25 (lower quartile) (£)	P50 (median) (£)	P75 (upper quartile) (£)
Salary	467,609	14,924	15,121	15,806
Total pay	552,575	14,924	15,583	15,806

The Chief Executive's base salary increased by 3% from 2019. However, as a result of the temporary waiver of part of his salary during the closure period, actual salary and pension contributions over the year were lower. The median pay ratio based on normal base salary and pension would be 40:1. Employee pay data is based just on worked hours converted to a full time equivalent and therefore were not impacted by furlough pay. On a total pay basis, the ratio of workforce pay to the Chief Executive's total pay has decreased, reflecting the lower level of actual base pay and no annual bonus payout or long-term incentive plan vesting in the year.

As stated above, hourly-paid employees do not participate in the annual bonus plan, where salaried employees do participate in an annual bonus plan (circa 6,000 employees); they have also seen no bonus payout in FY 2020. More broadly, pay in the hospitality sector is lower than many other sectors and this will be an influencing factor in the overall pay ratio, despite significant increases in pay rates over the last few years.

RELATIVE IMPORTANCE OF SPEND ON PAY £m

Figures shown for wages and salaries consist of all earnings, including bonus. In FY 2020, £1.7m (0.3%) was paid to Executive and Non-Executive Directors (2019 £3.5m (0.5%)).



* From note 2.3 to the consolidated financial statements (includes grants received and paid to employees under the Coronavirus Job Retention Scheme, and excludes share-based payments).

** Business Rates, Corporation Tax, Employer's NI.

Details of service contracts and letters of appointment

Details of the service contracts of Executive Directors are set out below.

Director	Contract start date	Unexpired term	Notice period from Company	Minimum notice period from Director	Compensation on change of control
Phil Urban[a]	27/09/15	Indefinite	12 months	6 months	No
Tim Jones	18/10/10	Indefinite	12 months	6 months	No

a. Phil Urban became Chief Executive and joined the Board on 27 September 2015. His continuous service date started on 5 January 2015, the date on which he joined the Company as Chief Operating Officer.

Non-Executive Directors

Non-Executive Directors, including the Company Chairman, do not have service contracts but serve under letters of appointment which provide that they are initially appointed until the next AGM when they are required to stand for election. In line with the Company's Articles of Association, all Directors, including Non-Executive Directors, will stand for re-election at the 2021 AGM. This is also in line with the provisions of the 2018 UK Corporate Governance Code. Non-Executive Directors' appointments are terminable without notice and with no entitlement to compensation. Payment of fees will cease immediately on termination.

Ron Robson and Josh Levy were appointed to the Board pursuant to the terms of the Piedmont Deed of Appointment, information on which is set out on page 53.

Copies of the individual letters of appointment for Non-Executive Directors and the service contracts for Executive Directors are available at the Registered Office of the Company during normal business hours and on our website. Copies will also be available to shareholders to view at the 2021 AGM.

REMUNERATION POLICY RENEWAL AND APPROACH FOR FY 2021

Our remuneration policy was approved at the 2018 AGM, with 97% of shareholders voting in favour of the policy. No significant changes to the policy have been introduced since its approval although, where possible, a proactive approach has been taken to adopting emerging best practice. The Committee is committed to providing transparent disclosure and in particular we first reported our CEO pay ratio in 2016 and already illustrated the impact of a 50% increase in share price on long-term incentive plan ('LTIP') vesting in the illustrations of remuneration policy.

Our policy is due for approval at the 2021 AGM and over the course of 2020 the Committee has undertaken a comprehensive review. However, the Committee has concluded that more time is needed to ensure that the new policy is fit for purpose in the context of the ongoing Covid-19 pandemic and the continuing challenges and uncertainties in the operating environment. Over the coming weeks it is our intention to consult with shareholders and investor groups and feedback from this process will be taken into account in determining our remuneration policy for shareholder approval. Full details of the proposed policy will then be included in the Notice of Meeting for the 2021 AGM (due to be held on 24 March 2021). The Committee is also cognisant of a number of areas of particular focus for shareholders and the requirements of the 2018 UK Corporate Governance Code, particularly in relation to Executive pensions and post cessation holding periods and had discussed these issues on a number of occasions throughout the year. The Committee feels that it would be more straightforward to present the entire proposed policy, including addressing these important matters, in a single communication. At the same time, we will also outline how the new policy will apply for FY 2021. However, I can confirm that there will be no increases to base pay for Executive Directors and that the fees of the Chairman and Non-Executive Directors will also remain unchanged for 2021.

IMELDA WALSH
Chair of the Remuneration Committee
25 November 2020

a. The Directors use a number of alternative performance measures (APMs) that are considered critical to aid the understanding of the Group's performance. Key measures are explained on pages 161 and 162 of this report.

Financial statements

CONTENTS

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

1. Opinion

In our opinion:

- the financial statements of Mitchells & Butlers plc (the 'parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent Company's affairs as at 26 September 2020 and of the Group's loss for the 52 weeks then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the Group income statement;
- the Group statement of comprehensive income;
- the Group and Company balance sheets;
- the Group and Company statements of changes in equity;
- the Group cash flow statement;
- the related notes 1 to 5 of Group financial statements; and
- the related notes 1 to 10 of the Company financial statements

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

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

We are independent of the Group and the parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and parent Company are disclosed in Note 2.3 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

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

3. Material uncertainty relating to going concern

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

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

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

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

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

In response to this, we:

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

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

4. Summary of our audit approach

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

5. Conclusions relating to principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 33 to 38 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on page 32 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 39 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to going concern and the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

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

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

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

6. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the material uncertainty relating to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
6.1 Valuation of freehold and long leasehold property S		
This is considered to be a key audit matter due to the judgements inherent within the valuation exercise and the range of acceptable judgements. The total net book value of revalued properties as at 26 September 2020 is £4.1bn (2019 £4.5bn). The revaluation exercise performed in the year has resulted in an additional impairment of £43m and a decrease in revaluation reserves of £148m. The Group's accounting policy sets out that the market value is determined using factors such as estimated fair maintainable trading levels, and estimated multiples which are derived for each of the Group's trading brands. New for 2020 is an additional income shortfall deduction to reflect that post Covid-19 trading results may not return to historic levels in the short term (assessed as being during FY 2021). In specific circumstances where this approach does not fairly represent the underlying value of the property, for example if a site is loss making, a spot valuation is applied. Where sites have been impacted by expansionary capital investment (invested sites) in the preceding 12 months, fair maintainable trade is taken as the post investment forecast. Sites that have been open for more than three periods (2019 three periods) have been reviewed for impairment. For invested sites during FY 2020 the valuation is capped at the previous valuation or cost. Whilst we note the increased estimation uncertainty, as detailed in Note 3.1, in applying the Royal Institute of Chartered Surveyors Valuation Global Standards 2020 ("Red Book"), the Group's external advisor has declared a 'material valuation uncertainty' in their valuation report on the portfolio as at 26 September 2020. This is on the basis that, as at the valuation date, there is an unprecedented set of circumstances caused by the coronavirus pandemic and an absence of relevant market experience on which to base judgements. In respect of these valuations, the valuers note that less certainty and a higher degree of caution should be attached to their valuation. Refer to note 3.1 for the Group's accounting policies and the key assumptions used, as well as the significant issues section of the Audit Committee report on page 72.	We worked with our property valuation specialists and management's external advisors to challenge the methodology and underlying assumptions used in the freehold and long leasehold pub valuation. This included: • challenging management's external advisor on the appropriateness of the fair maintainable trade value used against Red Book guidance; • confirming that the FY 2021 site level forecasts reconciled to both Board approved budgets and the forecasts used within the impairment models; • challenging management's external advisor on the appropriateness of applying an income shortfall deduction, by reference to market practice, as well as the methodology to calculate it; • challenging for the invested sites that the cap referred to above is appropriate by reference to likely future performance indicators; • evaluating the completeness of the allocation of central overheads to site level earnings in determining fair maintainable trade; • challenging the appropriateness of the reduction in the overall valuation relating to tenants' fixtures and fittings by reference to market value; • reperforming management's process for identifying sites requiring a spot valuation to assess the completeness of spot valuations; • validating a sample of spot valuations to assess the accuracy of the valuation; and • assessing the appropriateness of the disclosures in the financial statements. Additionally, we tested controls in relation to the valuation of the freehold and long leasehold estate. The controls tested covered management's review of: • the completeness and accuracy of the key inputs into the revaluation model; • the key judgements made in relation to fair maintainable trading levels, multiples and the income shortfall deduction; and • the completeness of spot valuations.	While we note the increased estimation uncertainty, from the work performed, we are in agreement with the methodology chosen and the assumptions adopted to revalue the freehold and long leasehold properties and we concur that the valuations are suitable for inclusion in the financial statements.

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
6.2 Impairment of short leasehold properties and fixtures and fittings S		
Under IFRS, the Group is required to complete an impairment review of short leasehold properties and fixtures and fittings where there are indicators of impairment. A £43m impairment has been recognised during the year. The net book value of the IFRS 16 right of use assets and fixtures and fittings as at 26 September 2020 was £466m. This is after the recording of an impairment charge of £65m on Day 1 of recognising the right of use assets. Onerous lease provisions, which have been identified as a key audit matter in previous years have now been superseded by the adoption of IFRS 16 'Leases' and therefore rental and other costs are now accounted for separately under IFRS 16. The short leasehold properties and fixtures and fittings impairment review involves management making several estimates to determine the Value In Use of the cash generating units (CGUs) (being the net present value of the forecast cash flows). This is then compared to the book value of each CGU's assets (including the right of use asset), to identify whether any impairment is required. In making this assessment, management determines each site to be a CGU. The key audit matter relates to the appropriateness of management's estimate of future trading performance of the sites, which is used to derive Value In Use. Value In Use is calculated from cash flow projections and relies upon management's assumptions and estimates of future trading performance, allocation of direct costs and overheads, long-term growth rates and discount rates. This is particularly challenging in light of the significant impact of Coronavirus and uncertainty over the pace and extent of recovery of the Group and the wider economy as the lockdown restrictions and associated site closures are eased. The impairment model is complex and is prepared using Excel spreadsheets which increases the scope for error. The impairment model utilises the forecasts included in the Board's three year plan, which covers the periods up to September 2023. Assumptions beyond this period assume no growth and that leases will not be renewed on expiry. The cash flows are discounted using a discount rate. As set out in note 3.1, the model is highly sensitive to changes in forecast performance, most notably sales. The forecasts are prepared on a top down basis and not at an individual site level. For the purpose of the impairment review, an exercise has therefore been performed to allocate the forecast performance across the individual sites. The key assumption in forecast site performance is a stabilisation of the like-for-like sales decline experienced in FY 2020, and forecasted to continue into the first half of FY 2021, then stabilising and gradually returning to pre-Covid level sales achieved from the latter part of FY 2021 and returning the Group to FY 2019 profitability over the medium/longer term. Refer to note 3.1 for the Group's impairment accounting policies and the key assumptions used in the impairment assessment, as well as the significant issues section of the Audit Committee report on page 72.	Our audit procedures included: • assessing the methodology applied in performing the impairment review with reference to the requirements of IAS 36 'Impairment of Assets'; • determining whether management had appropriately modelled the impact of IFRS 16 when considering the cash flows within the impairment model; • assessing management's process of allocating the top-down medium term plan to the individual site impairment review and challenging the judgements applied by analysing both historic site performance data and performing a search for contradictory evidence; • challenging the key assumptions utilised in the cash flow forecasts including reference to the historical trading performance, market expectations, and peer comparison; • challenging the allocation of direct and other costs to sites by assessing the individual costs against the criteria within IAS 36; • assessing the continually evolving impact of Coronavirus, the changing nature of Government announcements and the restrictions placed on trading as to what should be considered at the balance sheet date and what was a non-adjusting post balance sheet event; • assessing the long term growth rates and discount rates applied to the site cash flows by comparing the rates used to third party evidence. In relation to the discount rate, we have compared the rates used to our independently estimated discount rates determined by our internal valuations team; • engaging our specialist modelling team to assist in auditing the integrity of the Excel model; • assessing management's sensitivity analysis in relation to the key assumptions used in the cash flow forecasts; and • evaluating the adequacy of the Group's disclosures regarding impairment of short leasehold properties and fixtures and fittings in note 3.1 of the financial statements. Additionally, we tested controls in relation to the key controls around the impairment review, including the completeness and accuracy of the key inputs.	As set out, the short leasehold properties and fixtures and fittings impairment has required significant management judgement. In particular, it requires estimation of forecast performance in the context of a challenging retail sector where the long term impact of coronavirus on customer confidence and demand is not yet known. The impairment provision is underpinned by the assumption the decline in like for like sales returns to pre-Covid level sales, albeit slightly lower, from the second half of the financial year. From the work performed, we are satisfied with the integrity of management's model and have concluded that the level of impairment recognised on the short leasehold properties and fixtures and fittings is appropriate. Given the uncertainties noted, the disclosure sensitivities in note 3.1 provide important information to assess the impact of a change in key assumptions.

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

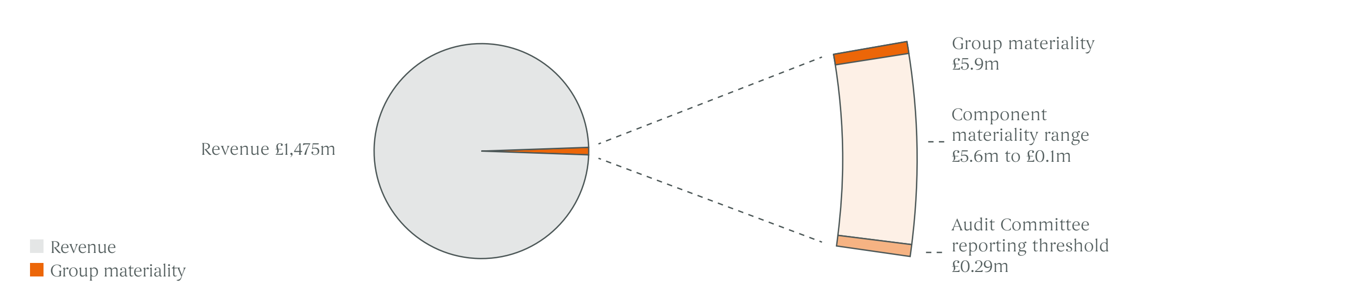
7. Our application of materiality

7.1 Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

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



7.1 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2020 audit (2019 70%). In determining performance materiality, we considered the following factors:

- our risk assessment, including our assessment of the Group's overall control environment and that we consider it appropriate to rely on controls over key business processes (see section 8.2); and
- our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

7.2 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £294,750 (2019 £465,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

8. An overview of the scope of our audit

8.1 Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we performed a full scope audit in respect of the UK retail operating business which accounts for 95% (2019 96%) of revenue, 99% (2019 96%) of loss (2019 profit) before tax and 99% (2019 99%) of the Group's net assets. This audit work was performed directly by the Group audit engagement team, who also tested the consolidation process. Given the relative size of the German business ('ALEX') we consider the UK business provides sufficient audit assurance over the Group balances. This approach is consistent with 2019. At the parent entity level we also tested the consolidation process, as well as the Company balances to parent Company materiality.

Our audit work on the UK business was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from £0.1m to £5.6m (2019 £0.1m to £9.3m).

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

8.2 Our consideration of the control environment

The Group uses JDE Enterprise for financial reporting in all of its legal entities. We utilised our IT specialists to assess key controls over the JDE Enterprise system, plus other key IT systems relevant to our audit including Stock Wastage System, STEP, Aztec, Data Warehouses, Robot Scheduler, Sterling and Biztalk and the supporting infrastructure for these applications.

In responding to the assessed risks of material misstatement, the audit engagement team placed reliance on the operating effectiveness of the Group's controls in relation to revenue, food and drink expenditure and the valuation of the freehold and leasehold property.

9. Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

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

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

10. Responsibilities of directors

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

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

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

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

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

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

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

12.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, in-house legal counsel including the Company secretary and General Counsel, and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, valuations, pensions, IT, financial instruments, and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

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

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

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

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

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

12.2 Audit response to risks identified

As a result of performing the above, we identified valuation of freehold and long leasehold property, impairment of short leasehold properties and fixtures and fittings, presentation of separately disclosed items, government assistance – furlough income, as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

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

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

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

14.1 Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have nothing to report in respect of these matters.

14.2 Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters

15.1 Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board on 10 February 2011 to audit the financial statements for the 52 weeks ending 24 September 2011 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is ten years, covering the financial years ending 24 September 2011 to 26 September 2020.

15.2 Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

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

JOHN CHARLTON FCA
(Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

25 November 2020

GROUP INCOME STATEMENT

For the 52 weeks ended 26 September 2020

	Notes	2020 52 weeks Before separately disclosed items £m	2020 52 weeks Separately disclosed items[a] £m	2020 52 weeks Total £m	2019 52 weeks Before separately disclosed items £m	2019 52 weeks Separately disclosed items[a] £m	2019 52 weeks Total £m
Revenue	2.1, 2.3	**1,475**	**–**	**1,475**	2,237	–	2,237
Operating costs before depreciation, amortisation and movements in the valuation of the property portfolio	2.2, 2.3	**(1,221)**	**2**	**(1,219)**	(1,801)	(19)	(1,820)
Share in associates results	3.6	**(1)**	**–**	**(1)**	–	–	–
Net profit arising on property disposals	2.2, 2.3	**–**	**–**	**–**	–	1	1
EBITDA[b] before movements in the valuation of the property portfolio		**253**	**2**	**255**	436	(18)	418
Depreciation, amortisation and movements in the valuation of the property portfolio	2.2, 2.3	**(154)**	**(93)**	**(247)**	(119)	(2)	(121)
Operating profit		**99**	**(91)**	**8**	317	(20)	297
Finance costs	4.3	**(128)**	**–**	**(128)**	(114)	–	(114)
Finance income	4.3	**1**	**–**	**1**	1	–	1
Net pensions finance charge	4.3, 4.5	**(4)**	**–**	**(4)**	(7)	–	(7)
(Loss)/profit before tax		**(32)**	**(91)**	**(123)**	197	(20)	177
Tax credit/(charge)	2.2, 2.4	**5**	**6**	**11**	(38)	4	(34)
(Loss)/profit for the period		**(27)**	**(85)**	**(112)**	159	(16)	143
(Loss)/earnings per ordinary share							
– Basic	2.5	**(6.3)p**		**(26.2)p**	37.2p		33.5p
– Diluted	2.5	**(6.3)p**		**(26.1)p**	37.1p		33.3p

a. Separately disclosed items are explained and analysed in note 2.2.
b. Earnings before interest, tax, depreciation, amortisation and movements in the valuation of the property portfolio.

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

All results relate to continuing operations.

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the 52 weeks ended 26 September 2020

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

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

GROUP BALANCE SHEET
26 September 2020

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

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

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

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

They were signed on its behalf by:

TIM JONES
Chief Financial Officer

GROUP STATEMENT OF CHANGES IN EQUITY

For the 52 weeks ended 26 September 2020

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

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

GROUP CASH FLOW STATEMENT

For the 52 weeks ended 26 September 2020

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

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

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

GENERAL INFORMATION

Mitchells & Butlers plc (the Company) is a public limited company limited by shares and is registered in England and Wales. The Company's shares are listed on the London Stock Exchange. The address of the Company's registered office is shown on page 151.

The principal activities of the Company and its subsidiaries (the Group) and the nature of the Group's operations are set out in the Strategic report on pages 8 to 44.

The Group is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and in accordance with the Companies Act 2006.

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

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

The Group's accounting policies have been applied consistently.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of Mitchells & Butlers plc ('the Company') and entities controlled by the Company (its subsidiaries).

Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affects its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at the previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of the subsidiaries acquired or disposed of during the period are included in the Group income statement from the date the Company gains control until the date when the Company ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same financial reporting period as the Company. Intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated on consolidation.

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on pages 8 to 38. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described within the Finance review on pages 41 to 44.

Note 4.4 to the consolidated financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. As highlighted in note 4.2 to the consolidated financial statements, the Group's financing is based upon securitised debt and unsecured borrowing facilities.

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

Liquidity

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

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

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

Revised facilities and covenants

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

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

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

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

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

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

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

Significant judgements and base case

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

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

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

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

Reverse stress test

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

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

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

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

Going concern statement

Notwithstanding the material uncertainty highlighted above, after due consideration the Directors have a reasonable expectation that the Company and the Group have sufficient resources to continue in operational existence for the period of at least twelve months from the date of approval of these financial statements. Accordingly, the financial statements continue to be prepared on the going concern basis. A review of longer-term viability is provided on page 39 which assesses the Group's ability to continue in operation and meet its liabilities as they fall due over a longer, three year period.

FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the exchange rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the relevant rates of exchange ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the Group income statement. Non-monetary assets and liabilities are measured at cost using the exchange rate on the date of the initial transaction. The consolidated financial statements are presented in pounds sterling (rounded to the nearest million), being the functional currency of the primary economic environment in which the parent and most subsidiaries operate.

On consolidation, the assets and liabilities of the Group's overseas operations are translated into sterling at the relevant rates of exchange ruling at the balance sheet date. The results of overseas operations are translated into sterling at average rates of exchange for the period. Exchange differences arising from the translation of the results and the retranslation of opening net assets denominated in foreign currencies are taken directly to the Group's translation reserve. When an overseas operation is sold, such exchange differences are recognised in the Group income statement as part of the gain or loss on sale.

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

NEW AND AMENDED IFRS STANDARDS THAT ARE EFFECTIVE FOR THE CURRENT PERIOD

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

IFRS 16 Leases

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

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

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

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

The Group as lessee

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Directors do not expect that the adoption of the standards listed above will have a material impact on the consolidated financial statements in future periods.

NEW AND REVISED IFRS STANDARDS IN ISSUE BUT NOT YET EFFECTIVE

The IASB and IFRIC have issued the following standards and interpretations which could impact the Group, with an effective date for financial periods beginning on or after the dates disclosed below:

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

The Directors do not expect that the adoption of the standards listed above will have a material impact on the consolidated financial statements in future periods.

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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

Critical judgements are described in each section listed below:

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

Key sources of estimation uncertainty are described in:

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

2.1 SEGMENTAL ANALYSIS

Accounting policies

Operating segments

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

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

Geographical segments

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

Geographical segments

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

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

2.2 SEPARATELY DISCLOSED ITEMS

Accounting policy

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

Separately disclosed items are those which are separately identified by virtue of their size or incidence and include movements in the valuation of the property portfolio as a result of the annual revaluation exercise, impairment review of tenant's fixtures and fittings, impairment review of short leasehold and unlicensed properties, impairment review of right-of-use assets, revaluation of assets held for sale, legal costs associated with the dispute in relation to the defined benefit pension scheme, past service cost in relation to the defined benefit pension obligation, VAT refund in relation to gaming duty and costs directly associated with the Government enforced closure of pubs as a result of the Covid-19 pandemic.

Critical accounting judgements

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

Separately disclosed items are identified as follows:

- Past service cost in relation to the defined benefit pension obligation as a result of the High Court ruling on guaranteed minimum pensions (GMPs) equalisations. This has been disclosed separately as it is not considered part of the adjusted trade performance of the Group and would prevent comparability between periods of the Group's trading if not separately disclosed.
- Costs directly associated with the Government enforced closure of pubs as result of the Covid-19 pandemic. These costs are disclosed separately as they are not considered to be part of normal trading activities.
- A refund in relation to the settlement of a long-standing claim with HMRC regards gaming duty is separately disclosed due to its size.
- Profit/(loss) arising on property disposals – property disposals are disclosed separately as they are not considered to be part of adjusted trade performance and there is volatility in the size of the profit/(loss) in each accounting period.
- Movement in the valuation of the property portfolio – this is disclosed separately, due to the size and volatility of the movement in property valuation each period, which can be partly driven by movements in the property market. This movement is also not considered to be part of the adjusted trade performance of the Group and would prevent comparability between periods of the Group's trading performance if not separately disclosed.
- Tax rate change – the change in tax rate is not part of normal trading activity and due to the size in any given period, this is disclosed separately.

The items identified in the current period are as follows:

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

a. On 26 October 2018 the High Court provided a ruling regarding guaranteed minimum pensions (GMPs) equalisation. The court ruled that pensions provided to members who had contracted-out of their scheme must be recalculated to ensure payments reflect the equalisation of state pension ages in the 1990s. The ruling provided pension trustees with a range of acceptable methods for calculating the GMP equalisation. The court also ruled that trustees are obliged to make arrears payments to members and simple interest on the arrears should be paid at 1% above the base rate. The estimated increase in pension liabilities required to equalise for GMPs and charged in the prior period was £19m.
b. Costs directly associated with the Covid-19 pandemic primarily relate to the disposal of stock items at site and within distribution depots that are beyond useable dates as a result of the Government enforced closure of pubs on 20 March 2020. This excessive wastage is not considered to be part of normal trading activity.
c. The income of £13m relates to a long-standing claim with HMRC, relating to VAT on gaming machines. HMRC first paid the Group £13m in May 2010 but following an appeal by HMRC, the Group repaid this in 2014. During the 52 weeks ended 26 September 2020, HMRC agreed to settle this amount with the Group. The amount recognised is the settlement value including estimated interest.
d. The impairment arising from the Group's revaluation of its freehold and long leasehold pub estate comprises an impairment charge, where the carrying values of the properties exceed their recoverable amount, net of a revaluation surplus that reverses past impairments. See note 3.1 for further details.
e. Impairment of freehold and long leasehold tenant's fixtures and fittings where their carrying values exceed their recoverable amounts. See note 3.1 for further details.
f. The impairment of short leasehold and unlicensed properties comprises an impairment charge, where their carrying values exceed their recoverable amount, net of an impairment reversal where carrying values have been increased to the recoverable amounts. See note 3.1 for further details.
g. Impairment of right-of-use assets where their carrying values exceed their recoverable amounts. See note 3.2 for further details.
h. During the prior period, a revaluation uplift, which reverses a previous impairment, was recognised on reclassification of property, plant and equipment to assets held for sale.
i. A deferred tax charge has been recognised in the current period following the substantive enactment of legislation on 17 March 2020, which increased the UK standard rate of corporation tax from 17% to 19% from 1 April 2020.

2.3 REVENUE AND OPERATING COSTS

Accounting policies

Revenue recognition

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

Revenue – food and drink

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

Revenue – services

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

Rental income is received from operating leases where the Group acts as lessor for a number of unlicensed and leased operations. Income from these leases is recognised on a straight-line basis over the term of the lease.

Operating profit

Operating profit is stated after charging adjusted items but before investment income and finance costs.

Supplier incentives

Supplier incentives and rebates are recognised within operating costs as they are earned. The accrued value at the reporting date is included in other receivables.

Government grants

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

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

Coronavirus Job Retention Scheme (CJRS)

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

Eat Out to Help Out

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

Business rates

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

Revenue is analysed as follows:

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

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

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

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

Operating costs are analysed as follows:

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

a. Supplier incentives are included as a reduction to the raw materials and consumables expense. These are not disclosed separately as the value is immaterial.
b. Following the implementation of IFRS 16 in the current period, fixed rental costs associated with property leases are no longer recognised as operating costs but are instead charged as a depreciation and interest expense (see notes 1 and 5.3). The remaining costs included for the 52 weeks ended 26 September 2020 are variable lease payments and rental costs for short-term leases.
c. Other costs include the cost of business rates. During the current period, the UK Government announced 100% rate relief for all pubs and restaurants for the business rates year 2020/2021. The impact in the current period is an estimated saving of £47m (2019 £nil).

Employee costs

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

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

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

Information regarding key management personnel is included in note 5.1. Detailed information regarding Directors' emoluments, pensions, long-term incentive scheme entitlements and their interests in share options is given in the Report on Directors' remuneration on pages 74 to 89.

2.3 REVENUE AND OPERATING COSTS continued

Auditor remuneration

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

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

2.4 TAXATION

Accounting policies

Current tax

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

Deferred tax

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset realised based on tax laws and rates that have been substantively enacted at the balance sheet date. The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities.

Critical accounting judgements

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

Key sources of estimation uncertainty

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

Taxation – Group income statement

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

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

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

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

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

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

2.4 TAXATION continued

Taxation – other comprehensive income

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

Tax relating to items recognised directly in equity

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

Taxation – Group balance sheet

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

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

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

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

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

Unrecognised tax allowances

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

A deferred tax asset has not been recognised on tax allowances with a value of £14m (2019 £15m) because it is not certain that future taxable profits will be available in the Company where these tax allowances arose against which the Group can utilise these benefits. These tax credits can be carried forward indefinitely.

Factors which may affect future tax charges

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

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

2.5 (LOSS)/EARNINGS PER SHARE

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

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

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

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

a. Adjusted (loss)/profit and adjusted EPS are alternative performance measures (APMs) and are considered critical to aid understanding of the Group's performance. These measures are explained on pages 161 and 162 of this report.

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

3.1 PROPERTY, PLANT AND EQUIPMENT

Accounting policies

Property, plant and equipment

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

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

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

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

Depreciation

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

Freehold land is not depreciated.

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

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

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

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

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

Disposals

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

Revaluation

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

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

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

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

Impairment

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

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

Critical accounting judgements

Revaluation of freehold and long leasehold properties

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

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

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

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

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

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

Key sources of estimation uncertainty

Revaluation of freehold and long leasehold properties

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

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

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

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

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

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

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

3.1 PROPERTY, PLANT AND EQUIPMENT continued

Property, plant and equipment

Property, plant and equipment can be analysed as follows:

	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
Cost or valuation			
At 29 September 2018	3,939	1,113	5,052
Additions	37	114	151
Transfer to assets held for sale	(12)	(2)	(14)
Disposals[a]	(2)	(158)	(160)
Revaluation and impairment	86	(4)	82
At 28 September 2019	4,048	1,063	5,111
Additions	24	73	97
Disposals[a]	(8)	(98)	(106)
Revaluation and impairment	(196)	(12)	(208)
At 26 September 2020	**3,868**	**1,026**	**4,894**
Accumulated depreciation			
At 29 September 2018	74	552	626
Provided during the period	7	109	116
Transfer to assets held for sale	–	(1)	(1)
Disposals[a]	(2)	(156)	(158)
At 28 September 2019	79	504	583
Provided during the period	6	104	110
Disposals[a]	(7)	(97)	(104)
At 26 September 2020	**78**	**511**	**589**
Net book value			
At 26 September 2020	**3,790**	**515**	**4,305**
At 28 September 2019	3,969	559	4,528
At 29 September 2018	3,865	561	4,426

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

Certain assets with a net book value of £39m (2019 £41m) owned by the Group are subject to a fixed charge in respect of liabilities held by the Mitchells & Butlers Executive Top-Up Scheme (MABETUS).

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

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

Revaluation of freehold and long leasehold properties

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

Sensitivity analysis

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

FMT

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

Multiples

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

Income shortfall deduction

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

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

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

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

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

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

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

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

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

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

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

3.1 PROPERTY, PLANT AND EQUIPMENT continued

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

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

	Number of pubs	Land and buildings £m	Fixtures, fittings and equipment £m	Net book value[a] £m
28 September 2019				
Freehold properties	1,331	3,603	433	4,036
Long leasehold properties	96	270	37	307
Total revalued properties	1,427	3,873	470	4,343
Short leasehold properties		77	80	157
Unlicensed properties		15	2	17
Other non-pub assets		1	3	4
Assets under construction		3	4	7
Total property, plant and equipment		3,969	559	4,528

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

The tables below show, by class of asset, the number of properties that have been valued within each FMT and multiple banding:

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

	Valuation multiple applied to FMT					
	Over 12 times	10 to 12 times	8 to 10 times	6 to 8 times	Under 6 times	Total
28 September 2019						
Number of pubs in each FMT income banding:						
< £200k pa	56	9	163	158	6	392
£200k to £360k pa	1	14	302	133	18	468
> £360k pa	1	59	430	61	16	567
	58	82	895	352	40	1,427

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

Capital commitments

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

3.2 LEASES

Leases – Group as lessee

Accounting policies

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

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

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

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

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

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

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

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

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

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

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

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

Impairment of right-of-use assets

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

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

Critical accounting judgements

Lease liabilities

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

Impairment of right-of-use assets

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

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

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

3.2 LEASES continued

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

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

Right-of-use assets

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

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

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

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

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

Impairment review of right-of-use assets

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

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

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

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

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

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

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

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

Leases – Group as lessor

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

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

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

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

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

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

3.2 LEASES continued

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

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

Operating lease receivables

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

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

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

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

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

3.3 WORKING CAPITAL
Inventories

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

Inventories can be analysed as follows:

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

Trade and other receivables

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

Trade and other receivables can be analysed as follows:

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

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

All amounts fall due within one year.

All trade, lease and other receivables are non-interest bearing. The Directors consider that the carrying amount of trade receivables and other receivables approximately equates to their fair value. An expected credit loss of £6m (2019 £2m) has been recognised against trade and other receivables. Of the provision, £4m (2019 £1m) relates to a gross balance of £9m (2019 £8m) for trade receivables and £2m (2019 £1m) relates to a gross balance of £5m (2019 £6m) within other receivables.

Credit risk is considered in note 4.4.

Trade and other payables

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

Trade and other payables can be analysed as follows:

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

Current trade and other payables are non-interest bearing. The Directors consider that the carrying amount of trade and other payables approximately equates to their fair value.

3.4 PROVISIONS

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

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

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

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

Provisions can be analysed as follows:

	Onerous property provisions £m	Dilapidation provisions £m	Total property provisions £m
At 29 September 2018	42	1	43
Released in the period	(9)	(1)	(10)
Provided in the period	8	1	9
Unwinding of discount	1	–	1
Utilised in the period	(7)	–	(7)
At 28 September 2019	35	1	36
Transferred to retained earnings on adoption of IFRS 16[a]	(33)	–	(33)
Provided in the period	2	1	3
Utilised in the period	(1)	–	(1)
At 26 September 2020	**3**	**2**	**5**

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

3.5 GOODWILL AND OTHER INTANGIBLE ASSETS

Accounting policies

Business combinations and goodwill
Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values of assets given and liabilities incurred or assumed by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the income statement as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits (revised) respectively; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the identifiable assets acquired and the liabilities assumed at the acquisition date. If, after reassessment, the net of the identifiable assets acquired and liabilities assumed at the acquisition date exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree, the excess is recognised immediately in the income statement as a bargain purchase.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the contingent consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates, at fair value, with the corresponding gain or loss being recognised in the income statement.

When a business combination is achieved in stages, the Group's previously-held interests in the acquired entity is re-measured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in the income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Goodwill is not amortised, but is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. The impairment review requires management to consider the recoverable value of the business to which the goodwill relates, based on either the fair value less costs to sell or the value in use. Value in use calculations require management to consider the net present value of future cash flows generated by the business to which the goodwill relates. Fair value less costs to sell is based on management's estimate of the net proceeds which could be generated through disposing of that business. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss is recognised immediately in the income statement and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Computer software
Computer software and associated development costs, which are not an integral part of a related item of hardware, are capitalised as an intangible asset and amortised on a straight-line basis over their useful life. The period of amortisation ranges between three and seven years with the majority being five years.

Intangible assets

Intangible assets can be analysed as follows:

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

There are no intangible assets with indefinite useful lives. All amortisation charges have been expensed through operating costs.

Goodwill has been tested for impairment within each cash-generating-unit, on a site-by-site basis using forecast cash flows, discounted by applying a pre-tax discount rate of 9.9% (2019 7.7%). For the purposes of the calculation of the recoverable amount, the cash flow projections beyond the two-year period include 0.0% (2019 0.0%) growth per annum.

3.6 ASSOCIATES

Accounting policy
An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Under the equity method, an investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. If after reassessment the Group's share of the net fair value of the identifiable assets and liabilities are in excess of the cost of the investment, this is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 36 Impairment of Assets are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss when the equity method is discontinued.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

The nature of the activities of all of the Group's associates is trading in pubs and restaurants, which are seen as complementing the Group's operations and contributing to the Group's overall strategy.

Associates can be analysed as follows:

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

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

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

During a prior period, a put and call option agreement was entered into, which allows the Company to acquire the remaining 60% share capital of the associate, 3Sixty Restaurants Limited, at any point in time after three years from the initial purchase date. The initial 40% investment was purchased on 1 August 2018 for £4m. The current shareholders also have the ability under the option to sell the remaining 60% to the company, subject to a number of conditions. The fair value of this option at 26 September 2020 is £1m (2019 £1m). This has been recognised as a financial asset at FVTPL (see note 4.4) and the gain deferred and recognised over the three year option life.

4.1 NET DEBT

Accounting policies
Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand and other short-term highly liquid deposits with an original maturity at acquisition of three months or less. Cash held on deposit with an original maturity at acquisition of more than three months is disclosed as other cash deposits. In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

Net debt
Net debt comprises cash and cash equivalents, cash deposits net of borrowings and discounted lease liabilities. Net debt is presented on a constant currency basis, due to the inclusion of the fixed exchange rate component of the cross currency swap (as described in note 4.4). Cash flows on the interest rate and cross currency swaps are shown within interest paid in the Group cash flow statement.

Net debt

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

a. Cash and cash equivalents, in the cash flow statement, are presented net of an overdraft within a cash pooling arrangement, to which the Group has a legal right of offset.
b. The term loan is a drawing under a facility that is backed by the Coronavirus Large Business Interruption Loan Scheme. Further details provided in note 4.2.
c. Represents the element of the fair value of currency swaps hedging the balance sheet value of the Group's US$ denominated A3N loan notes. This amount is disclosed separately to remove the impact of exchange movements which are included in the securitised debt amount.

Movement in net debt excluding leases

	2020 52 weeks £m	2019 52 weeks £m
Net increase in cash and cash equivalents	**24**	11
Add back cash flows in respect of other components of net debt:		
Transfers from other cash deposits	**–**	(120)
Repayment of principal in respect of securitised debt	**95**	87
Drawdown of term loan (note 4.2)	**(100)**	–
Drawdown on unsecured revolving credit facilities	**(10)**	–
(Drawdown)/repayment of liquidity facility	**(9)**	147
Decrease in net debt arising from cash flows	**–**	125
Movement in capitalised debt issue costs net of accrued interest	**–**	(1)
Decrease in net debt excluding leases	**–**	124
Opening net debt excluding leases	**(1,564)**	(1,688)
Foreign exchange movements on cash	**1**	
Closing net debt excluding leases	**(1,563)**	(1,564)

4.1 NET DEBT continued

Movement in lease liabilities:

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

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

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

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

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

The movement in net debt for the 52 weeks ended 28 September 2019 is represented by:

	At 29 September 2018 £m	Cash flow movements in the period £m	Non-cash movements in the period £m	Foreign currency movements £m	At 28 September 2019 £m
Securitised debt	(1,830)	87	(1)	(8)	(1,752)
Liquidity facility	(147)	147	–	–	–
Derivatives hedging securitised debt	47	–	–	8	55
Total liabilities arising from financing activities	(1,930)	234	(1)	–	(1,697)
Cash and cash equivalents	122	11	–	–	133
Other cash deposits	120	(120)	–	–	–
Net debt	(1,688)	125	(1)	–	(1,564)

4.2 BORROWINGS

Accounting policy
Borrowings, which include the Group's secured loan notes, are stated initially at fair value (normally the amount of the proceeds) net of issue costs. Thereafter they are stated at amortised cost using an effective interest basis. Finance costs, which are the difference between the net proceeds and the total amount of payments to be made in respect of the instruments, are allocated over the term of the debt using the effective interest method. Borrowing costs are not attributed to the acquisition or construction of assets and therefore no costs are capitalised within property, plant and equipment.

Borrowings can be analysed as follows:

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

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

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

Securitised debt
On 13 November 2003, the Group refinanced its debt by raising £1,900m through a securitisation of the majority of its UK pubs and restaurants owned by Mitchells & Butlers Retail Limited. On 15 September 2006 the Group completed a further debt ('tap') issue to borrow an additional £655m and refinance £450m of existing debt at lower cost.

The loan notes consist of ten tranches as follows:

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

a. Expected weighted average life (WAL) assumes no early redemption in respect of any loan notes.
b. After the effect of interest rate swaps.
c. A3N notes are US$ notes which are shown as translated to sterling at the hedged swap rate. Values at the period end spot rate are £182m (2019 £207m). Therefore the exchange difference on the A3N notes is £44m (2019 £55m).

4.2 BORROWINGS continued

The notes are secured on the majority of the Group's property and future income streams therefrom. All of the floating rate notes are hedged using interest rate swaps which fix the interest rate payable.

Interest and margin is payable on the floating rate notes as follows:

Tranche	Interest	Margin
A1N	3 month LIBOR	0.45%
A3N	3 month US$ LIBOR	0.45%
A4	3 month LIBOR	0.58%
AB	3 month LIBOR	0.60%
C2	3 month LIBOR	1.88%
D1	3 month LIBOR	2.13%

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

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

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

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

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

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

Liquidity facility

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

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

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

Unsecured revolving credit facilities

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

Term loan backed by the Coronavirus Large Business Interruption Loan Scheme

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

4.3 FINANCE COSTS AND REVENUE

	2020 52 weeks £m	2019 52 weeks £m
Finance costs		
Interest on securitised debt	**(105)**	(109)
Interest on other borrowings	**(6)**	(4)
Interest on lease liabilities	**(17)**	–
Unwinding of discount on provisions (note 3.4)	**–**	(1)
Total finance costs	**(128)**	(114)
Finance income		
Interest receivable – cash	**1**	1
Net pensions finance charge (note 4.5)	**(4)**	(7)

4.4 FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

4.4 FINANCIAL INSTRUMENTS continued

Credit-impaired financial assets
A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event;
(c) the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(e) the disappearance of an active market for that financial asset because of financial difficulties.

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

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

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

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

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

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

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

Financial liabilities
The Group has financial liabilities relating to borrowings, for which the accounting policy is provided in note 4.2. Other financial liabilities are initially measured at fair value, net of transaction costs.

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

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

Effective interest method
The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating finance charges over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) over the expected life of the debt instrument, or where appropriate, a shorter period, to the amortised cost of a financial liability. Finance charges are recognised on an effective interest basis for all debt instruments.

Derivative financial instruments
The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including interest rate and currency swaps.

Derivative financial instruments are initially measured at fair value on the contract date and are remeasured to fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Group has both the current legal right to offset and intention to settle on a net basis or realise simultaneously. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than twelve months and it is not expected to be realised or settled within twelve months. Other derivatives are presented as current assets or current liabilities.

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

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

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

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

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

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

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

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

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

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

4.4 FINANCIAL INSTRUMENTS continued

Funding and liquidity risk

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

The current funding arrangements of the Group consist of the securitised notes issued by Mitchells & Butlers Finance plc (and associated liquidity facility) along with three committed unsecured revolving credit facilities of £50m each and two unsecured facilities backed by the Government Coronavirus Large Business Interruption Loan Scheme of £50m each. The terms of the securitisation and the revolving credit facilities contain various financial covenants. Details of covenant amendments and waivers obtained as a result of the Covid-19 pandemic to mitigate the risk to liquidity are provided in the going concern review on pages 104 and 105. Compliance with these covenants is monitored by Group Treasury. The Group also has uncommitted credit facilities of £5m.

The Group prepares a rolling daily cash forecast covering a six week period and an annual cash forecast by period. These forecasts are reviewed on a daily basis and are used to manage the investment and borrowing requirements of the Group. A combination of cash pooling and zero balancing agreements are in place to ensure the optimum liquidity position is maintained. The Group maintains sufficient cash balances or committed facilities outside the securitisation to ensure that it can meet its medium-term anticipated cash flow requirements.

The maturity table below details the contractual undiscounted cash flows (both principal and interest), based on the prevailing period end interest and exchange rates, for the Group's financial liabilities, after taking into account the effect of interest rate and currency swaps (which are settled gross) and assumes no early redemption in respect of any loan notes.

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

Credit risk

The Group Treasury function enters into contracts with third parties in respect of derivative financial instruments for risk management purposes and the investment of surplus funds. These activities expose the Group to credit risk against the counterparties. To mitigate this exposure, Group Treasury operates policies that restrict the investment of surplus funds and the entering into of derivative transactions to counterparties that have a minimum credit rating of 'A' (long-term) and 'A1'/'P1'/'F1' (short-term). Counterparties may also be required to post collateral with the Group, where their credit rating falls below a predetermined level. The amount that can be invested or transacted at various ratings levels is restricted under the policy. To minimise credit risk exposure against individual counterparties, investments and derivative transactions are entered into with a range of counterparties. The Group Treasury function reviews credit ratings, as published by Moody's, Standard & Poor's and Fitch Ratings, current exposure levels and the maximum permitted exposure at given credit ratings, for each counterparty on a daily basis. Any exceptions are required to be formally reported to the Treasury Committee on a four-weekly basis.

Trade receivables and other receivables mainly represent amounts due from tenants of unlicensed properties, amounts due from Group suppliers and cash collateral deposits held by third parties. Credit exposure relating to tenants is ordinarily considered to be low risk, with an expected lifetime credit loss calculated at the period end to reflect the risk of irrecoverable amounts. To minimise credit risk new tenants are assessed using an external credit rating system before they are approved for tenancy. Credit exposure is reduced for the amounts due from Group suppliers as the Group holds offsetting amounts in trade and other payables that are due to some of these suppliers. Credit risk on cash collateral deposits held by third parties are considered to be low credit risk as they are held with reputable banking institutions by third parties. As a result of the Covid-19 pandemic, credit risk has increased in relation to trade receivables due to trading restrictions imposed on tenants. An additional expected credit loss allowance has therefore been recognised on trade receivables (see note 3.3).

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

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

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

Capital management

The Group's capital base is comprised of its net debt (analysed in note 4.1) plus total equity (disclosed on the face of the Group balance sheet). The objective is to maintain a capital base which is sufficiently strong to support the ongoing development of the business as a going concern, including the amenity, and cash flow generation of the pub estate. By keeping debt and headroom against its debt facilities at an appropriate level, the Group ensures that it maintains a strong credit position, whilst maximising value for shareholders and adhering to its covenants and other restrictions associated with its debt (see note 4.2). In managing its capital structure, from time to time the Group may realise value from non-core assets, buy back or issue new shares, initiate and vary its dividend payments and seek to vary or accelerate debt repayments. The Group's policy is to ensure that the maturity of its debt profile supports its strategic objectives. The Board considers the latest covenant compliance, headroom projections and projected balance sheet positions periodically throughout the period, based on the advice of the Treasury Committee which meets on a four-weekly basis. The Treasury Committee is chaired by the Group Treasurer and monitors Treasury performance and compliance with Board-approved policies. The Group Chief Financial Officer is also a member of the Committee. Further details of the impact of Covid-19 on the capital management of the Group are provided in the going concern review on pages 104 and 105.

Total capital at the balance sheet date is as follows:

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

Market risk

The Group is exposed to the risk that the fair value of future cash flows of its financial instruments will fluctuate because of changes in market prices. Market risk comprises foreign currency and interest rate risk.

Foreign currency risk

The most significant currency risk the Group faces is in relation to the class A3N floating rate notes. At issuance of these notes, the Group entered into a cross currency interest rate swap to manage the foreign currency exposure resulting from both the US$ principal and initial interest elements of the notes. The A3N notes have a carrying value of £182m (2019 £207m) and form part of the securitised debt (see note 4.2).

Sensitivity analysis

Further to the step-up on the A3N notes on 15 December 2010, the Group has additional foreign currency exposure as a result of the increase in US$ finance costs. A movement of 10% in the US$ exchange rate would have £nil (2019 £nil) impact on the reported Group profit and £18m (2019 £21m) impact on the reported Group equity.

The Group has no significant profit and loss exposure as a result of retranslating monetary assets and liabilities at different exchange rates. As the Group is predominantly UK based and acquires the majority of its supplies in sterling, it has no significant direct currency exposure from its operations.

Interest rate risk

The Group has a mixture of fixed and floating interest rate debt instruments and manages the variability in cash flows resulting from changes in interest rates by using derivative financial instruments. Where the necessary criteria are met, the Group minimises the volatility in its consolidated financial statements through the adoption of the hedge accounting provisions permitted under IFRS 9. The interest rate exposure resulting from the Group's £1.6bn securitisation is largely fixed, either as a result of the notes themselves being issued at fixed interest rates, or through a combination of floating rate notes against which effective interest rate swaps are held, which are eligible for hedge accounting.

4.4 FINANCIAL INSTRUMENTS continued

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

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

Sensitivity analysis

The sensitivity analysis below has been calculated based on the Group's exposure to interest rates for both derivative and non-derivative instruments as at the balance sheet date. A 1% movement is used when reporting interest rate risk internally to key management personnel and represents management's assessment of this reasonably possible change in interest rates.

For floating rate liabilities, which are not hedged by derivative instruments, the analysis has been prepared assuming that the liability outstanding at the balance sheet date was outstanding for the whole period. For interest income the analysis assumes that cash and cash equivalents and other cash deposits that were held in interest bearing accounts at the balance sheet date were held for the whole period.

The Group's sensitivity to a 1% increase in interest rates is detailed below:

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

a. Represents interest income earned on cash and cash equivalents and other cash deposits (these are defined in note 4.1).
b. The element of interest expense which is not matched by payments and receipts under cash flow hedges which would otherwise offset the interest rate exposure of the Group.
c. The impact on total equity from movements in the fair value of cash flow hedges.

Derivative financial instruments

Cash flow hedges

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

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

Cash flow hedges – securitised borrowings

At 26 September 2020, the Group held ten (2019 ten) interest rate swap contracts with a nominal value of £855m (2019 £897m), designated as a hedge of the cash flow interest rate risk of £855m (2019 £897m) of the Group's floating rate borrowings, comprising the A1N, A3N, A4, AB, C2 and D1 loan notes.

The cash flows on these contracts occur quarterly, receiving a floating rate of interest based on LIBOR and paying a fixed rate of 4.8316% (2019 4.8399%). The contract maturity dates match those of the hedged item. The ten interest rate swaps are held on the Group balance sheet at fair value, which is a liability of £293m (2019 £302m). No hedge ineffectiveness on the interest rate swaps was recognised in profit or loss in the current or prior period.

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

The cash flows on this contract occur quarterly, receiving a floating rate of interest based on US$ LIBOR and paying a floating rate of interest at LIBOR in sterling. The ineffectiveness on the cross currency swaps due to foreign currency basis spread was immaterial in both the current and prior period.

The cash flows arising from interest rate swap positions on the same counterparty may be settled as a net position. The cross currency interest rate swap is held under a separate agreement and cash movements for this instrument are settled individually. In the event of default, the interest rate swaps and cross currency swaps may be settled net, giving a net liability of £253m (2019 £247m).

Share options

During a prior period, a put and call option agreement was entered into, which allows the Company to acquire the remaining 60% share capital of the associate, 3Sixty Restaurants Limited, at any point in time after three years from the initial purchase date. The initial 40% investment was purchased on 1 August 2018 for £4m (see note 3.6). The current shareholders also have the ability under the option to sell the remaining 60% to the company, subject to a number of conditions. The fair value of this option at 26 September 2020 is £1m (2019 £1m). This is recognised as a financial asset and the gain deferred and recognised over the three year option life.

Fair values of derivative financial instruments

The fair values of the derivative financial instruments were measured at 26 September 2020 and may be subject to material movements in the period subsequent to the balance sheet date. The fair values of the derivative financial instruments are reflected on the balance sheet as follows:

	Derivative financial instruments – fair value				
	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	Total £m
Cash flow hedges at FVTOCI:					
– Interest rate swaps	**–**	**–**	**(40)**	**(257)**	**(297)**
– Cross currency swap	**44**	**–**	**–**	**–**	**44**
Share options at FVTPL	**1**	**–**	**–**	**–**	**1**
26 September 2020	**45**	**–**	**(40)**	**(257)**	**(252)**
28 September 2019	53	3	(36)	(266)	(246)

Reconciliation of movements in derivative values

The tables below detail changes in the Group's derivatives, including both cash and non-cash changes where appropriate. Changes in the Group's borrowings are disclosed in the net debt reconciliation in note 4.1.

Movements in derivative values for the 52 weeks ended 26 September 2020 are represented by:

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

Movements in derivative values for the 52 weeks ended 28 September 2019 are represented by:

	At 29 September 2018 £m	Cash movements £m	Fair value movements £m	At 28 September 2019 £m
Cash flow hedges	(196)	31	(82)	(247)
Share options	–	–	1	1
Total derivatives	(196)	31	(81)	(246)

Fair value of financial assets and liabilities

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

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

4.4 FINANCIAL INSTRUMENTS continued

Borrowings have been valued as level 1 financial instruments, as the various tranches of the securitised debt have been valued using period end quoted offer prices. As the securitised debt is traded on an active market, the market value represents the fair value of this debt. The fair value of interest rate and currency swaps is the estimated amount which the Group could expect to pay or receive on termination of the agreements. Other financial assets and liabilities are either short-term in nature or their book values approximate to fair values.

Fair value of derivative financial instruments

The fair value of the Group's derivative financial instruments is calculated by discounting the expected future cash flows of each instrument at an appropriate discount rate to a 'mark to market' position and then adjusting this to reflect any non-performance risk associated with the counterparties to the instrument.

IFRS 13 Financial Instruments requires the Group's derivative financial instruments to be disclosed at fair value and categorised in three levels according to the inputs used in the calculation of their fair value:

- Level 1 instruments use quoted prices as the input to fair value calculations;
- Level 2 instruments use inputs, other than quoted prices, that are observable either directly or indirectly;
- Level 3 instruments use inputs that are unobservable.

The table below sets out the valuation basis of derivative financial instruments held at fair value by the Group:

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

Fair value at 28 September 2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Currency swaps	–	55	–	55
Share options (see note 3.6)	–	–	1	1
Financial liabilities:				
Interest rate swaps	–	(302)	–	(302)
	–	(247)	1	(246)

4.5 PENSIONS

Accounting policy

Retirement and death benefits are provided for eligible employees in the United Kingdom principally by the Mitchells & Butlers Pension Plan (MABPP) and the Mitchells & Butlers Executive Pension Plan (MABEPP). These plans are funded, HMRC approved, occupational pension schemes with defined contribution and defined benefit sections. The defined benefit section of the plans is now closed to future service accrual. The defined benefit liabilities relates to these funded plans, together with an unfunded unapproved pension arrangement (the Executive Top-Up Scheme, or MABETUS) in respect of certain MABEPP members. The assets of the plans are held in self-administered trust funds separate from the Company's assets.

In addition, Mitchells & Butlers plc also provides a workplace pension plan in line with the Workplace Pensions Reform Regulations. This automatically enrols all eligible workers into a Qualifying Workplace Pension Plan.

As the Company does not have an unconditional right to recover any surplus from the pension plans, IFRIC 14 requires the minimum funding liability to be recognised, where it is in excess of the actuarial liabilities. As such, the total pension liabilities recognised in the balance sheet in respect of the Group's defined benefit arrangements is the greater of the minimum funding requirements, calculated as the present value of the agreed schedule of contributions, and the actuarial calculated liabilities. Actuarial liabilities are the present value of the defined benefit obligation, less the fair value of the schemes' assets. The cost of providing benefits is determined using the projected unit credit method as determined annually by qualified actuaries. This is based on a number of financial assumptions and estimates, the determination of which may be significant to the balance sheet valuation in the event that this reflects a greater deficit than that suggested by the schedule of minimum contributions.

There is no current service cost as all defined benefit schemes are closed to future accrual. The net pension finance charge, calculated by applying the discount rate to the pension deficit or surplus at the beginning of the period, is shown within finance income or expense. The administration costs of the schemes are recognised within operating costs in the income statement.

Remeasurement comprising actuarial gains and losses, the effect of minimum funding requirements, and the return on schemes' assets are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur.

Curtailments and settlements relating to the Group's defined benefit plans are recognised in the income statement in the period in which the curtailment or settlement occurs.

For the defined contribution arrangements, the charge against profit is equal to the amount of contributions payable for that period.

Critical accounting judgements

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

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

Measurement of scheme assets and liabilities

Actuarial valuation

The actuarial valuations used for IAS 19 (revised) purposes are based on the results of the latest full actuarial valuation carried out at 31 March 2019 and updated by the schemes' independent qualified actuaries to 26 September 2020. Schemes' assets are stated at market value at 26 September 2020 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. IAS 19 (revised) requires that the schemes' liabilities are discounted using market yields at the end of the period on high-quality corporate bonds.

In relation to the MABPP, the Trust Deed and Rules provide that it is a matter for the Company to determine the rate of inflation which should be applied to pension increases for certain sections of the membership in excess of guaranteed minimum pensions and the Company has instructed the Trustee to apply CPI (subject to certain caps) in respect of such increases. The Trustee believes that this power was incorrectly vested in the Company in the Trust Deed and Rules of the MABPP in 1996 and, despite it being reflected in further versions, has made an application to court for those various Trust Deeds and Rules to be rectified. It is the Board's belief that the Company holds the power to fix such an inflation index and the Company is therefore contesting that application. The hearing is expected to be held in 2021. The actuarial surplus as determined under IAS 19 (revised) has continued to be calculated using RPI, pending final resolution of the matter. The applicable rate of CPI at 26 September 2020 is 2.5%. Leaving all other principal financial assumptions constant, the impact of this change on the defined benefit obligation as measured under IAS 19 (revised) is estimated to be a reduction of £69m. However (under IFRIC 14) additional liabilities are recognised such that the total balance sheet position reflects the schedule of contributions agreed by the Company, extending to 2023. As such, should the Company be successful in contesting the application there will be no necessary movement in the total balance sheet position.

4.5 PENSIONS continued

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

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

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

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

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

Minimum funding requirements

The results of the 2019 actuarial valuation showed a funding deficit of £293m, using a more prudent basis to discount the scheme liabilities than is required by IAS 19 (revised). As a result of the 2019 actuarial valuation, the Company has subsequently agreed recovery plans for both the Executive and Main schemes in order to close the funding deficit in respect of its pension liabilities. The recovery plans show an unchanged level of cash contributions with no extension to the agreed payment term (£45m per annum indexed with RPI from 1 April 2016 subject to a minimum increase of 0% and maximum of 5%, until 31 March 2023). Following the outbreak of the Covid-19 pandemic and the enforced temporary closure of the business at the end of March 2020, the Company agreed with the Trustee that contributions would be suspended for the months of April to September 2020, with these being added onto the end of the agreed recovery plan so that these contributions will be paid during the second half of FY 2023.

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

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

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

Sensitivity to changes in actuarial assumptions

The sensitivities regarding principal actuarial assumptions, assessed in isolation, that have been used to measure the scheme liabilities are set out below.

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

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

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated. In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liabilities recognised in the statement of financial position.

Principal risks and assumptions

The defined benefit schemes are not exposed to any unusual, entity specific or scheme specific risks but there are general risks:

Inflation – The majority of the plans' obligations are linked to inflation. Higher inflation will lead to increased liabilities which is partially offset by the plans holding inflation linked gilts and other inflation linked assets.

Interest rate – The plans' liabilities are determined using discount rates derived from yields on AA-rated corporate bonds. A decrease in corporate bond yields will increase plan liabilities though this will be partially offset by an increase in the value of the bonds held by the plans.

Mortality – The majority of the plans' obligations are to provide benefits for the life of the members and their partners, so any increase in life expectancy will result in an increase in the plans' liabilities.

Asset returns – Assets held by the pension plans are invested in a diversified portfolio of equities, bonds and other assets. Volatility in asset values will lead to movements in the net deficit/surplus reported in the Group balance sheet for the plans which in addition will also impact the pension finance charge in the Group income statement.

Amounts recognised in respect of defined benefit schemes

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

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

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

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

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

4.5 PENSIONS continued

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

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

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

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

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

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

The major categories and fair values of assets of the MABPP and MABEPP schemes at the end of the reporting period are as follows:

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

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

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

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

At 26 September 2020 the MABPP owed £nil (2019 £1m) to the Group in respect of expenses paid on its behalf. This amount is included in other receivables in note 3.2.

4.6 SHARE-BASED PAYMENTS

Accounting policy

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

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

Schemes in operation

The net charge recognised for share-based payments in the period was £2m (2019 £3m).

The Group had four equity-settled share schemes (2019 four) in operation during the period: the Performance Restricted Share Plan (PRSP); Sharesave Plan; Share Incentive Plan (SIP) and Short Term Deferred Incentive Plan (STDIP).

The vesting of all awards or options is generally dependent upon participants remaining in the employment of a participating company during the vesting period. Further details on each scheme are provided in the Report on Directors' remuneration on pages 74 to 89.

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

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

a. The exercise price for the Performance Restricted Share Plan is £1 per participating employee.
b. The expected dividend yield for the Performance Restricted Share Plan options is zero as participants are entitled to Dividend Accrued Shares to the value of ordinary dividends paid or payable during the vesting period.
c. The expected volatility is determined by calculating the historical volatility of the Company's share price commensurate with the expected term of the options and share awards.
d. The expected life of the options represents the average length of time between grant date and exercise date.

The fair value of awards under the Short Term Deferred Incentive Plan and the Share Incentive Plan are equal to the share price on the date of award as there is no price to be paid and employees are entitled to Dividend Accrued Shares to the value of ordinary dividends paid or payable during the vesting period. The assumptions set out above are therefore not relevant to these schemes. The fair value of options granted under the Short Term Deferred Incentive Plan during the period was 466.9p (2019 272.4p). There were no awards under the Share Incentive Plan or the Sharesave Plan in the current period. The fair value of options granted under the Share Incentive Plan during the prior period was 281.5p.

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

	Number of shares		Weighted average exercise price	
Sharesave Plan	**2020 m**	2019 m	**2020 p**	2019 p
Outstanding at the beginning of the period	**5.0**	4.1	**244.0**	256.0
Granted	**–**	2.0	**–**	242.0
Exercised	**(0.6)**	–	**270.0**	230.9
Forfeited	**(0.9)**	(0.7)	**239.8**	246.2
Expired	**(0.1)**	(0.4)	**270.9**	348.0
Outstanding at the end of the period	**3.4**	5.0	**239.9**	244.0
Exercisable at the end of the period	**–**	–	**–**	–

The outstanding options for the SAYE scheme had an exercise price of between 221.0p and 362.0p (2019 between 221.0p and 362.0p) and the weighted average remaining contract life was 2.1 years (2019 2.8 years). The number of forfeited shares in the period includes 581,665 (2019 400,999) cancellations.

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

4.6 SHARE-BASED PAYMENTS continued

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

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

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

The exercise price for the Performance Restricted Share Plan is £1 per participating employee, therefore the weighted average exercise price for these options is £nil (2019 £nil).

Options outstanding at 26 September 2020 had an exercise price of £nil and a weighted average remaining contractual life of 3.0 years (2019 3.2 years).

4.7 EQUITY

Accounting policies
Own shares
The cost of own shares held in employee share trusts and in treasury are deducted from shareholders' equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, the fair value of any consideration received is also included in shareholders' equity.

Dividends
Dividends proposed by the Board but unpaid at the period end are not recognised in the financial statements until they have been approved by shareholders at the Annual General Meeting. Interim dividends are recognised when paid.

Scrip dividends are fully paid up from the share premium account. They are accounted for as an increase in share capital for the nominal value of the shares issued, and a resulting reduction in share premium.

Called up share capital	2020 Number of shares	£m	2019 Number of shares	£m
Allotted, called up and fully paid				
Ordinary shares of 8 13⁄24p each				
At start of period	**428,577,760**	**37**	428,310,823	37
Share capital issued[a]	**623,357**	**–**	266,937	–
At end of period	**429,201,117**	**37**	428,577,760	37

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

All of the ordinary shares rank equally with respect to voting rights and rights to receive ordinary and special dividends. There are no restrictions on the rights to transfer shares.

Details of options granted under the Group's share schemes are contained in note 4.6.

Dividends
There were no dividends declared or paid during the current period.

Share premium account
The share premium account represents amounts received in excess of the nominal value of shares on issue of new shares. Share premium of £2m (2019 £nil) has been recognised on shares issued in the period.

Capital redemption reserve
The capital redemption reserve movement arose on the repurchase and cancellation by the Company of ordinary shares during prior periods.

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

Own shares held
Own shares held by the Group represent the shares in the Company held by the employee share trusts.

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

The Company has established two employee share trusts:

Share Incentive Plan (SIP) Trust
The SIP Trust was established in 2003 to purchase shares on behalf of employees participating in the Company's Share Incentive Plan. Under this scheme, eligible employees are awarded free shares which are normally held in trust for a holding period of at least three years. After five years the shares may be transferred to or sold by the employee free of income tax and National Insurance contributions. The SIP Trust buys the shares in the market or subscribes for newly issued shares with funds provided by the Company. During the holding period, dividends are paid directly to the participating employees. At 26 September 2020, the trustees, Equiniti Share Plan Trustees Limited, held 1,768,611 (2019 1,904,568) shares in the Company. Of these shares, 604,404 (2019 577,636) shares are unconditionally available to employees, 479,097 (2019 315,333) shares have been conditionally awarded to employees, 607,225 (2019 987,565) shares have been awarded to employees but are still required to be held within the SIP Trust and the remaining 77,885 (2019 24,034) shares are unallocated.

Employee Benefit Trust (EBT)
The EBT was established in 2003 in order to satisfy the exercise or vesting of existing and future share options and awards under the Performance Restricted Share Plan, Short Term Deferred Incentive Plan and the Sharesave Plan. The EBT purchases shares in the market or subscribes for newly issued shares, using funds provided by the Company, based on expectations of future requirements. Dividends are waived by the EBT. At 26 September 2020, the trustees, Sanne Fiduciary Services Limited, were holding 718,820 (2019 911,213) shares in the Company.

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

Translation reserve
The translation reserve is used to record exchange differences arising from the translation of the consolidated financial statements of foreign subsidiaries.

Retained earnings
The Group's main operating subsidiary, Mitchells & Butlers Retail Limited, had retained earnings under FRS 101 of £2,226m at 26 September 2020 (2019 £2,313m). Its ability to distribute these reserves by way of dividends is restricted by the securitisation covenants (see note 4.2).

5.1 RELATED PARTY TRANSACTIONS

Key management personnel

Employees of the Mitchells & Butlers plc Group who are members of the Board of Directors or the Executive Committee of Mitchells & Butlers plc are deemed to be key management personnel. It is the Board who have responsibility for planning, directing and controlling the activities of the Group.

Compensation of key management personnel of the Group:

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

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

Associate companies

During the period, the Group has held a number of property lease agreements with its associate companies, 3Sixty Restaurants Limited and Fatboy Pub Company Limited.

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

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

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

The balance due from Fatboy Pub Company at 26 September 2020 was £11,000 (2019 £186,000), net of a provision of £179,000 (2019 £nil).

5.2 SUBSIDIARIES AND ASSOCIATES

Subsidiaries

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation.

Mitchells & Butlers plc is the ultimate controlling party and the beneficial owner of all of the equity share capital, either itself or through subsidiary undertakings, of the following companies:

Name of subsidiary	Country of incorporation	Registration Number	Nature of business
Principal operating subsidiaries			
Mitchells & Butlers Retail Limited	England and Wales	00024542	Leisure retailing
Mitchells & Butlers Retail (No. 2) Limited	England and Wales	03959664	Leisure retailing
Ha Ha Bar & Grill Limited	England and Wales	06295359	Leisure retailing
Orchid Pubs & Dining Limited	England and Wales	06754332	Leisure retailing
ALEX Gaststätten Gesellschaft mbH & Co KG	Germany		Leisure retailing
Midco 1 Limited	England and Wales	05835640	Property leasing company
Mitchells & Butlers Leisure Retail Limited	England and Wales	01001181	Service company
Mitchells & Butlers Germany GmbH[a]	Germany		Service company
Mitchells & Butlers Finance plc	England and Wales	04778667	Finance company
Other subsidiaries			
Mitchells & Butlers (Property) Limited[b]	England and Wales	01299745	Property management
Standard Commercial Property Developments Limited[b]	England and Wales	00056525	Property development
Mitchells & Butlers Holdings (No.2) Limited[a,b]	England and Wales	06475790	Holding company
Mitchells & Butlers Holdings Limited[b]	England and Wales	03420338	Holding company
Mitchells & Butlers Leisure Holdings Limited[b]	England and Wales	02608173	Holding company
Mitchells & Butlers Retail Holdings Limited	England and Wales	04887979	Holding company
Old Kentucky Restaurants Limited	England and Wales	00465905	Trademark ownership
Bede Retail Investments Limited	England and Wales	04125272	Dormant
Lastbrew Limited	England and Wales	00075597	Dormant
Mitchells & Butlers (IP) Limited[b]	England and Wales	04885717	Dormant
Mitchells & Butlers Acquisition Company	England and Wales	05879733	Dormant
Mitchells & Butlers Retail Property Limited[a,b]	England and Wales	06301758	Non-trading
Mitchells and Butlers Healthcare Trustee Limited[b]	England and Wales	04659443	Healthcare trustee
Standard Commercial Property Investments Limited	England and Wales	01954096	Dormant
Standard Commercial Property Securities Limited	England and Wales	01689558	Dormant
Temple Circus Developments Limited	England and Wales	06595222	Dormant
ALEX Gaststätten Immobiliengesellschaft mbH	Germany		Property management
ALL BAR ONE Gaststätten Betriebsgesellschaft mbH	Germany		Leisure retailing
ALEX Alsterpavillon Immobilien GmbH & Co KG	Germany		Property management
ALEX Alsterpavillon Management GmbH	Germany		Management company
Alex Gaststätten Management GmbH	Germany		Management company
Miller & Carter Gaststätten Betriebsgesellschaft mbH	Germany		Non-trading
Browns Restaurant (Brighton) Limited	England and Wales	01564302	Dormant
Browns Restaurant (Bristol) Limited	England and Wales	02351724	Dormant
Browns Restaurant (Cambridge) Limited	England and Wales	01237917	Dormant
Browns Restaurant (London) Limited	England and Wales	00291996	Dormant
Browns Restaurant (Oxford) Limited	England and Wales	01730727	Dormant
Browns Restaurants Limited	England and Wales	01001320	Dormant
Intertain (Dining) Limited	England and Wales	07035107	Dormant
Lander & Cook Limited	England and Wales	11160005	Dormant

a. Shares held directly by Mitchells & Butlers plc.
b. These companies are exempt from the requirement to prepare individual audited financial statements in respect of the 52 week period ended 26 September 2020 by virtue of sections 479A and 479C of the Companies Act 2006.

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

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

5.2 SUBSIDIARIES AND ASSOCIATES continued

Associates

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

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

5.3 ADOPTION OF IFRS 16 LEASES

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

Impact of IFRS 16 on the financial statements

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

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

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

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

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

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

Balance sheet

The impact on the opening balance sheet is summarised below:

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

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

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

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

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

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

The estimated impact of this is as follows.

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

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

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

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

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

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

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

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

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

5.5 FIVE YEAR REVIEW

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

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

COMPANY BALANCE SHEET

26 September 2020

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

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

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

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

They were signed on its behalf by:

TIM JONES
Chief Financial Officer

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

Registered Number: 04551498

COMPANY STATEMENT OF CHANGES IN EQUITY

For the 52 weeks ended 26 September 2020

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares held £m	Retained earnings £m	Total equity £m
At 29 September 2018	37	26	3	(1)	1,645	1,710
Loss after taxation	–	–	–	–	(6)	(6)
Remeasurement of pension liability	–	–	–	–	15	15
Deferred tax on remeasurement of pension liability	–	–	–	–	(3)	(3)
Total comprehensive income	–	–	–	–	6	6
Purchase of own shares	–	–	–	(3)	–	(3)
Credit in respect of employee share schemes	–	–	–	–	3	3
Tax on share-based payments	–	–	–	–	1	1
At 28 September 2019	37	26	3	(4)	1,655	1,717
Loss after taxation	–	–	–	–	(136)	(136)
Remeasurement of pension liability	–	–	–	–	3	3
Deferred tax on remeasurement of pension liability	–	–	–	–	8	8
Total comprehensive expense	–	–	–	–	(125)	(125)
Share capital issued	–	2	–	–	–	2
Purchase of own shares	–	–	–	(2)	–	(2)
Release of own shares	–	–	–	3	(3)	–
Credit in respect of employee share schemes	–	–	–	–	2	2
At 26 September 2020	**37**	**28**	**3**	**(3)**	**1,529**	**1,594**

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

1. BASIS OF PREPARATION

Basis of accounting

These Company financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' as issued by the FRC.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, presentation of a cash flow statement, standards not yet effective and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements.

The Company financial statements have been prepared under the historical cost convention. The Company's accounting policies have been applied on a consistent basis to those set out in the relevant notes to the consolidated financial statements. In the current period, the Company has applied a number of amendments to IFRS Standards issued by the International Accounting Standards Board (the Board) that are mandatorily effective for an accounting period that begins on or after 1 January 2019, as described in section 1 of the consolidated financial statements. Their adoption has not had any material impact on the disclosures or on the amounts reported in these Company financial statements.

Critical accounting judgements and key sources of estimation uncertainty

The critical judgements and estimates of the Company are considered alongside those of the Group. The key critical judgements of the Company are: the selection of the discount rate and inflation rate assumptions used in the calculation of the defined benefit pension liability described in note 4.5 of the consolidated financial statements; the recognition of deferred tax assets as described in note 2.4 of the consolidated financial statements; and the assessment of expected credit loss on amounts owed by subsidiary undertakings as described in note 6. The key sources of estimation uncertainty in the current period are the estimates of future cash flows and selection of a discount rate for the investment impairment review described in note 5 and the estimation of future taxable profits for the recognition of deferred tax assets as described in note 2.4 of the consolidated financial statements.

Foreign currencies

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

Restatement

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

2. PROFIT AND LOSS ACCOUNT

Profit and loss account

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

The Company recorded a loss after tax of £136m (2019 loss of £6m), less dividends of £nil (2019 £nil).

Audit remuneration

Auditor's remuneration for audit services to the Company was £30,000 (2019 £30,000). This is borne by another Group company, as are any other costs relating to non-audit services (see note 2.3 to the consolidated financial statements).

3. EMPLOYEES AND DIRECTORS

	2020 52 weeks	2019 52 weeks
Average number of employees, including part-time employees	**2**	2

Employees of Mitchells & Butlers plc consist of Executive Directors who are considered to be the key management personnel of the Company.

Details of employee benefits and post-employment benefits including share-based payments are included within the Report on Directors' remuneration on pages 74 to 89. The charge recognised for share-based payments in the period is £nil (2019 £1m).

4. PENSIONS

Accounting policy

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

Pension liability

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

The Company is the sponsoring employer of the Group's pension plans. Information concerning the pension scheme arrangements operated by the Company and associated current and future contributions is contained within note 4.5 to the consolidated financial statements on pages 143 to 146.

The pension amounts and disclosures included in note 4.5 to the consolidated financial statements are equivalent to those applicable for the Company.

5. INVESTMENTS IN SUBSIDIARIES

Accounting policy
The Company's investments in Group undertakings are held at cost less provision for impairment. The value of these investments are reviewed annually for impairment by comparing the recoverable amount with carrying value. Recoverable amount is deemed as being either an enterprise value where the subsidiary is a trading entity or net asset value where the subsidiary has no trading assets.

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

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

Mitchells & Butlers plc is the beneficial owner of all of the equity share capital of companies within the Group, either itself or through subsidiary undertakings. In addition, the Company has indirect investments in associate companies through subsidiary undertakings. See note 5.2 of the consolidated financial statements for a full list of subsidiaries and associates.

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

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

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

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

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

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

6. AMOUNTS OWED BY SUBSIDIARY UNDERTAKINGS

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

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

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

Critical accounting judgements

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

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

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

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

7. TRADE AND OTHER PAYABLES

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

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

8. BORROWINGS

Accounting policy
The accounting policy for borrowings is disclosed in the consolidated financial statements in note 4.2.

Borrowings can be analysed as follows:

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

Unsecured revolving credit facility

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

9. TAXATION

Accounting policy
The accounting policy for taxation is disclosed in the consolidated financial statements in note 2.4.

Deferred tax asset
Movements in the deferred tax asset can be analysed as follows:

	£m
At 29 September 2018	48
Charged to income statement – pensions	(4)
Charged to income statement – tax losses	(1)
Charged to other comprehensive income – pensions	(3)
Credited to equity – share-based payments	1
At 28 September 2019	41
Charged to income statement – pensions	(8)
Charged to income statement – tax losses	(1)
Credited to other comprehensive income – pensions	8
At 26 September 2020	**40**

Analysed as tax timing differences related to:

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

a. Tax losses arising in 2008 which are now recoverable by offset against other income.

Further information on the changes to tax legislation are provided in note 2.4 to the consolidated financial statements.

10. EQUITY

Called up share capital
Details of the amount and nominal value of allotted, called up and fully paid share capital are contained in note 4.7 to the consolidated financial statements.

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

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 2.2.

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 2.5
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 4.1 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

	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 2.2). 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 2.2	**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 2.5	**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 IFRS 16. 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 FY 2016–19 £m	2020 FY 2017–19 £m	2020 FY 2020 £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 three periods pre-year end.

Return on remodel capital

	Source	**FY 2020 £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%)**

CONTACTS

Registered office
27 Fleet Street
Birmingham B3 1JP
Telephone 0121 498 4000

REGISTRAR

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

From the UK:
Telephone 0371 384 2065*

From non-UK jurisdictions:
Telephone +44 121 415 7088*

For those with hearing loss, a textphone is available on 0371 384 2255* for UK callers with compatible equipment.

http://www.mbplc.com/investors/contacts/

* Lines are open 8.30am to 5.30pm (UK time), Monday to Friday, excluding public holidays in England & Wales.

KEY DATES

These dates are indicative only and may be subject to change. For the current status visit the financial calendar on our website at www.mbplc.com/investors

Annual General Meeting	March 2021
Announcement of interim results	May 2021
Pre-close trading update	September 2021
2021 final results announcement	November 2021

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Mitchells & Butlers

Mitchells & Butlers plc
27 Fleet Street
Birmingham B3 1JP
Tel: +44 (0)121 498 4000