MARSTON'S

26 June 2020

# MARSTON'S PLC
# INTERIM RESULTS FOR THE 26 WEEKS ENDED 28 MARCH 2020

## COVID-19 impact on H1 earnings and improvement in cash flow

## Transformational joint venture transaction provides strong platform for post-pandemic recovery

| | Underlying | | | Statutory | |
|---|---|---|---|---|---|
| | **2020*** | **2019** | | **2020*** | **2019** |
| **Revenue** | **£510.5m** | **£553.1m** | | **£510.5m** | **£553.1m** |
| **Profit/(loss) before tax** | **£9.4m** | **£34.2m** | | **£(33.2)m** | **£16.3m** |
| **Earnings/(loss) per share** | **1.2p** | **4.5p** | | **(4.4)p** | **2.2p** |
| **Net cash flow** | **£3m** | **£(52)m** | | | |

**2020 results reflect adoption of IFRS 16 'Leases'*

## PERFORMANCE AND FINANCING

- **Pre-COVID-19 revenues in line with last year**
  - COVID-19 had a material impact on revenues estimated at c£40 million
- **Net cash flow improvement of £55 million reflecting progress on debt reduction plans**
  - Achieved despite COVID-19 impact on earnings
  - Includes £61 million disposal proceeds through sale of 168 pubs.
- **Additional liquidity secured and covenants amended beyond end of financial year**
  - £70 million additional facility to November 2020; £118 million headroom on facilities
  - Covenant amendments and waivers on all finance facilities
  - Cash burn of £10m per month in closure period following swift action on cost reduction
  - Cash flow supported by very strong off-trade sales – up 55% since half year

## OUTLOOK

- **Transformational joint venture transaction**
  - Long-term joint venture between Marston's Beer Company ("MBC") and Carlsberg UK
  - Retain 40% stake in a high quality beer business with significant synergy opportunity
  - Receive up to £273 million equalisation payment – valuing MBC at £580 million
  - Proceeds used to further reduce debt, target ongoing cash flow broadly cash neutral
  - Transaction approved by shareholders 25 June and expected to complete in Q3 2020, subject to competition clearance
- **Well placed for post COVID-19 recovery in medium term**
  - Plans in place for pubs to reopen from 4 July, initial revenue and earnings profile uncertain
  - Transaction significantly strengthens balance sheet
  - Predominantly freehold pub estate, located outside city centres with 90% having outside space
  - Well placed to benefit from likely supply contraction in sector and gain market share
  - Management will have total future focus on operating its pubs and accommodation business
  - Capital markets day in autumn to present pub strategy

**Commenting, Ralph Findlay, CEO said:**

"Our immediate priority is to prepare our pubs to reopen on 4 July. Whilst there is short term uncertainty as the sector emerges from lockdown, we are focussed on offering a great guest experience, synonymous with Marston's hospitality, to welcome our customers back into our pubs within a safe trading environment.

"The challenges facing the sector should not be underestimated and much rests on consumer confidence which may take time to rebuild. As the industry navigates its way out of lockdown, we will continue to urge Government for continued support for pubs and wider hospitality, through the reopening phase and thereafter through business rates relief and cuts to VAT, to protect jobs, the economy and the invaluable role the pub plays in communities nationwide.

Looking ahead, our transformational deal with Carlsberg positions the Company well for the future. Post completion, Marston's will be a focussed pub and accommodation business with a significantly strengthened balance sheet, well placed to rebuild trading momentum and leverage the market opportunities available to us over the medium to longer term."


**ENQUIRIES:**

| | | | |
|---|---|---|---|
| **Marston's PLC** | Tel: 01902 329516 | **Instinctif Partners** | |
| Ralph Findlay, | Chief Executive Officer | Justine Warren | Tel: 020 7457 2010 |
| Andrew Andrea, | Chief Financial Officer | Matthew Smallwood | Tel: 020 7457 2005 |


**NOTES TO EDITORS**

- Marston's is a leading pub operator and independent brewer.
- It has an estate of around 1,400 pubs situated nationally, comprising managed, franchised and leased pubs.
- It is the UK's leading brewer of premium cask and packaged ales, including Hobgoblin, Wainwright, Marston's Pedigree and 61 Deep. The portfolio also includes beers brewed at Banks's, Jennings, Wychwood, Ringwood, and Eagle Breweries and also includes McEwan's, Courage, Bombardier, Brakspear and Mansfield beers. To complement the UK portfolio, Marston's operates a number of brands under licence with global brand owners such as Estrella Damm, Erdinger, Shipyard and Kirin.
- Marston's employs around 14,000 people.

## GROUP OVERVIEW

The first half-year results have been significantly impacted by the COVID-19 outbreak in March 2020. However, following the transformational Beer Company transaction outlined below, we will have a significantly strengthened balance sheet, and a high quality freehold pub estate well placed to recover from the impact of the current position.

Generally, underlying trading was solid over the first few months, after which we saw an adverse trading impact from the storms in February and subsequently a material impact on trading in the latter half of March as the impact of COVID-19 took hold. Sales in the period to the end of February were broadly in line with the prior year and the circa £40 million shortfall in sales arose in March.

Encouragingly, despite this, we made good progress on cash generation in the period, demonstrating our commitment to our previously stated debt reduction plans, which were ahead of schedule, with net cash flow up £55 million on last year including £61 million proceeds from the disposal of 168 pubs in the period.

Overall, underlying trading prior to 16 March was solid, including strong Christmas and New Year trading, despite the impact of the severe and widespread flooding in November, and again in February. Like-for-like sales in pubs for the 24 weeks to 14 March were down 1% and beer volumes were in line with expectations. After 16 March, trading deteriorated sharply and all pubs were closed in line with Government guidance.

In addition, the results for the period reflect the adoption of IFRS 16 'Leases' for the first time, details of which are set out in note 16 of the accounts. In summary, as previously guided, this change to the accounting rules has visibly reduced reported earnings, and net debt has increased to reflect lease liabilities not previously recognised as debt on the balance sheet.

Total revenue of £510.5 million was below last year (2019: £553.1 million), principally reflecting the impact of COVID-19 on both Pubs and Bars as well as Marston's Beer Company. Group underlying operating margins at 11.3% were 2.0% behind last year, principally reflecting this reduced revenue. Underlying operating profit was £57.8 million (2019: £73.3 million). At the end of February revenues were broadly in line with last year. The revenue impact of COVID-19 is therefore estimated to be circa £40 million.

Underlying profit before tax was £9.4 million (2019: £34.2 million). Basic underlying earnings per share for the period were 1.2 pence per share (2019: 4.6 pence per share).

On a statutory basis, the Group generated a loss before tax of £33.2 million (2019: £16.3 million profit). The difference between the statutory and underlying profit principally reflects around £26 million of non-cash items (which were disclosed at the time we announced the disposals) relating to losses on the disposal of certain non-core assets and interest rate swap fair value adjustments, as well as approximately £16 million of COVID-19 related costs including debt provisions and stock valuation adjustments. The basic loss per share was 4.4 pence per share (2019: 2.2 pence earnings per share).

Net cash flow for the period of £3 million was £55 million higher than in 2019, this improvement reflects reduced capital expenditure and disposals as part of our longer-term debt reduction plans. Operating cash flow of £58 million is below last year (2019: £67 million) reflecting reduced earnings.

Net debt excluding lease liabilities of £1,379 million has improved and is £39 million lower than last year. Additionally, lease liabilities of £295 million have been recognised on adoption of IFRS 16.

**Joint venture with Carlsberg UK**

On 22 May 2020, the Group announced that it had entered into an agreement to contribute its brewing business, valued at up to £580 million on a debt free/cash free basis, to a new UK brewing joint venture with Carlsberg, the Carlsberg Marston's Brewing Company, in return for 40 per cent of the equity in the joint venture. Under the agreement, Carlsberg will also contribute its UK brewing assets, valued at £200 million on a debt free/cash free basis, in return for 60 per cent of the equity in the joint venture.

On completion, the Group will realise up to £273 million in the form of a cash equalisation payment, which is subject to adjustment in respect of: (i) customary working capital and debt/cash adjustments, and (ii) £5 million of other adjustments. Of the up to £273 million equalisation payment, £34 million will be deferred for 12 months from completion with the amount payable contingent on the extent of the recovery of the share price performance of a pre-agreed basket of companies to pre-COVID-19 levels.

The cash proceeds will provide the Group with significant liquidity to materially reduce debt in line with its stated strategy whilst at the same time the Group will retain a significant stake in the joint venture.

The transaction constitutes a Class 1 transaction under the Listing Rules and was approved by shareholders at a general meeting of the Company on 25 June 2020. The transaction is subject to clearance by the competition authorities and completion is expected in Q3 2020.

**Outlook and dividend**

As previously guided, given the ongoing uncertainty, we are unable to quantify the impact of COVID-19 on our financial and trading performance at this stage, however we naturally anticipate a reduction in our expectations for financial year 2020.

In response to the temporary closure of pubs mandated by Government, our focus has been to minimise the level of cash-burn within the organisation, which currently stands at approximately £10 million per month. Actions include:

- Reducing all expenditure, including capital spend, to essential spend only
- Taking advantage of the Government furlough scheme with 93% of employees being furloughed and remaining employees taking a 20% reduction in salary
- We have managed to retain all employees and maintain a mental well-being programme to support affected employees
- Accessed government grants and reliefs, including supporting our tenants in assisting them to gain access to those reliefs

In addition, as previously announced, the Board believes that given the uncertainty surrounding COVID-19 it would be prudent to plan for no dividends to be paid in respect of financial year 2020. We recognise that the dividend is important to many of our shareholders and we plan to revisit the payment of dividends only when the business is generating sufficient cash flow to cover the dividend and it is appropriate to do so.

We are encouraged that there is now confirmation from Government that pubs are allowed to reopen on 4 July and the operational guidelines we will be required to adhere to. In advance of reopening, we have prepared comprehensive plans for our employees to be able to operate safely within the guidance, and for our pubs to trade efficiently and profitably given restrictions still in place. We look forward to welcoming our customers back into our pubs, albeit the trajectory of both revenue and earnings in this initial period are uncertain. As previously announced, we will not be proposing dividends in respect of financial year 2020 given the uncertainty that still exists.

The Financing section below describes the additional bank facilities and covenant waivers put in place with our banks and bondholders, which provide us with sufficient flexibility to manage through an unanticipated period of pub closure which extends significantly beyond current expectations of re-opening. In addition, as part of the work underpinning the circular for the joint venture transaction with Carlsberg UK described above, the Board has considered a 'reasonable worst case scenario' which assumes a period of pub closures to the end of September 2020. In this 'reasonable worst case scenario', if the transaction were not to happen, the Board would be required to seek alternative funding or develop alternative plans for the Group's future financing. Even if the transaction does complete then in this scenario the Group would need to obtain further covenant waivers from its bondholders. Both these matters represent material uncertainties over the Group's ability to continue to trade as a going concern over the foreseeable future being a period of at least 12 months from the date of the interim financial information. The Board are confident however that in this worst case scenario we would be able to pursue mitigating strategies, including the potential to access funds from a range of sources, underpinned by the significant freehold tenure of the pub estate.

Looking forward, it is clear that there will be contraction of supply in the eating and drinking out market as a consequence of COVID-19. Our predominately freehold pub estate is less exposed than many of our peers to city centres where we believe the long-term impact of COVID-19 may be more pronounced. Given the composition of our pub estate, together with a significantly strengthened balance sheet arising from the proceeds from the Beer Company transaction, we are well placed to fully exploit the recovery of trade over the longer term.

It is our intention to hold a capital markets day in the autumn to set out our operational strategy and financial plans for our pubs and accommodation business going forward.

## PERFORMANCE AND FINANCIAL REVIEW

| | **Revenue** | | **Underlying operating profit** | | **Operating margin** | |
|---|---|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 |
| | **£m** | £m | **£m** | £m | **%** | % |
| Pubs and Bars | **343.3** | 369.9 | **62.7** | 71.7 | **18.3** | 19.4 |
| Brewing | **167.2** | 183.2 | **10.7** | 14.5 | **6.4** | 7.9 |
| Group Services | **-** | - | **(15.6)** | (12.9) | **(3.1)** | (2.3) |
| **Group** | **510.5** | 553.1 | **57.8** | 73.3 | **11.3** | 13.3 |

### Pubs and Bars

Total revenue decreased by 7.2% to £343.3 million principally reflecting the adverse impact of COVID-19 in March. Underlying trading ahead of this was solid in the first 19 weeks of the period, with strong Christmas and New Year trading offset by the adverse impact of significant and widespread flooding in November and February, together with the impact of disposals. Underlying operating profit of £62.7 million was behind last year reflecting these factors.

Reported operating margin of 18.3% is 1.1% below last year reflecting the margin impact of reduced sales.

**Brewing**

Total revenue decreased by 8.7% to £167.2 million, principally reflecting the adverse impact of COVID-19 on the on-trade and weaker lager sales in the off-trade. Underlying operating profit of £10.7 million reflects the impact of the sale trends.

Operating margin of 6.4% was behind last year reflecting the margin impact of reduced sales.

**Taxation**

The underlying rate of taxation was 19.1% in 2020 (2019: 15.5%). This has been calculated by applying an estimate of the underlying effective tax rate for the 53 weeks ending 3 October 2020 assuming a three month pub closure period to the end of June.

**Non-underlying items**

There is a net non-underlying charge of £35.6 million after tax. This primarily relates to the £21.9 million loss on disposal and associated costs from the sale of two portfolios of smaller wet-led leased, tenanted and franchised pubs and associated properties, and £16.2 million of COVID-19 related costs including debt provisions, stock valuation adjustments and £1.2 million in respect of any pub related costs incurred after their closure on 21 March 2020.

In addition, there is a charge of £0.3 million in respect of the net interest on the net defined benefit pension scheme liability, a £4.2 million net loss in respect of interest rate swap movements, and a credit of £7.6 million relating to the tax on non-underlying items offset by a charge of £0.6 million in relation to the change in corporation tax rate.

**Capital expenditure and disposals**

Capital expenditure was £45.1 million in the period (2019: £74.4 million), the reduction principally reflecting the suspension of the new-build investment programme.

Cash proceeds of £61.2 million have been realised in relation to the disposal of assets (2019: £29.4 million).

**Property**

The last external valuation of the Group's properties was undertaken in January 2018, and in August 2019 a further impairment of some of our food-led pubs was undertaken, reflecting competition in the eating-out market. The methodology for valuing our pubs uses long-term fair maintainable trade estimates as the basis for valuation, and we have not made any valuation adjustments to the carrying values of pubs at this interim stage. However, there is uncertainty as to the long-term impact, if any, that COVID-19 has on pub trading and valuation. We expect to have a better understanding of these issues by the time we report our Preliminary Results in November 2020, having reopened our pubs, and will consider whether valuation adjustments are appropriate at that time. Nevertheless this matter represents a material uncertainty in connection with the property valuation recorded in note 8 of the interim financial information.

## Financing

The Group has a range of medium and long-term financing providing an appropriate level of flexibility and liquidity for the medium term: a £360 million bank facility to March 2024; £55 million of other facilities; a long-term securitisation of approximately £730 million, and long-term lease financing of £337 million.

The Group met all banking and securitisation financial covenants in the first half year, despite the disruption of COVID-19.

Since the period-end the Group has entered into a new £70 million facility to November 2020 to provide additional liquidity during the COVID-19 lockdown period. In addition, we have received amendments to our bank facilities for September 2020 and March 2021, and we have secured waivers on the Free Cash Flow financial covenant for July 2020 and October 2020 in the context of our securitisation, together with a covenant amendment for January 2021.

Following completion of the joint venture with Carlsberg UK and the receipt of the significant proceeds therein, we intend to reduce the bank facility from the current £360 million to £280 million, and repay the additional £70 million facility.

This year is the first reporting period under IFRS 16 ‘Leases’, where lease liabilities have been recognised within net debt for the majority of the Group’s previous operating leases. Lease liabilities as at 28 March 2020 were £320 million.

Net debt at 28 March 2020 (excluding IFRS 16 lease liabilities) of £1,379 million is £39 million below last year.

Operating cash flow of £58 million is below last year reflecting trading restrictions. However, the net cash flow of £3 million is a £55 million improvement relative to last year.

## Pensions

The deficit on our final salary scheme was £3.9 million at 28 March 2020 which compares to the £36.4 million deficit at last year end. The decrease in the deficit is due principally to a significant decrease in the liability, driven by an increase in the discount rate and reduced expectations for future inflation.

## Accounting changes

The Group has identified an error regarding the amount of deferred tax recognised in respect of land and buildings which were held under finance leases under IAS 17 ‘Leases’. As such the comparatives for the 26 weeks ended 30 March 2019 and the 52 weeks ended 28 September 2019 have been restated. Full details are provided in note 14 of the accounts.

The Group has split the land and buildings asset class within property, plant and equipment into an effective freehold class, held under the revaluation model, and a leasehold class, held under the cost model. This change has been applied retrospectively and as such the comparatives for the 26 weeks ended 30 March 2019 and the 52 weeks ended 28 September 2019 have been restated. Full details are provided in note 15 of the accounts.

The Group has adopted IFRS 16 ‘Leases’ in the current period. IFRS 16 introduces an ‘on balance sheet’ model for lessees and as such the Group has recognised a lease liability within borrowings in respect of the majority of its previous operating leases. Further details of the adoption of IFRS 16 are provided in note 16 of the accounts.

**Responsibility Statement of the Directors in respect of the Interim Results**

The Directors confirm that these condensed consolidated interim financial statements have been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

- material related party transactions in the first six months of the financial year and any material changes in the related party transactions described in the last Annual Report and Accounts.

The Directors of Marston's PLC are listed in the Marston's PLC Annual Report and Accounts for 28 September 2019 with the exception of the following changes in the period: Octavia Morley was appointed to the Board on 1 January 2020 and Catherine Glickman retired from the Board on 24 January 2020. A list of current Directors is maintained on the Marston's PLC website: www.marstons.co.uk.

By order of the Board:

| | |
|---|---|
| Ralph Findlay | Andrew Andrea |
| Chief Executive Officer | Chief Financial and Corporate Development Officer |
| 26 June 2020 | 26 June 2020 |

## GROUP INCOME STATEMENT (UNAUDITED)

For the 26 weeks ended 28 March 2020

| | | 26 weeks to 28 March 2020 | | | 26 weeks to 30 March 2019 (Restated) | | | 52 weeks to 28 September 2019 (Restated) |
|---|---|---|---|---|---|---|---|---|
| | Note | **Underlying £m** | **Non-underlying £m** | **Total £m** | Underlying £m | Non-underlying £m | Total £m | Total £m |
| **Revenue** | 2, 3 | **510.5** | **-** | **510.5** | 553.1 | - | 553.1 | 1,173.5 |
| Operating expenses | | **(452.7)** | **(38.1)** | **(490.8)** | (479.8) | (10.1) | (489.9) | (1,067.1) |
| **Operating profit** | 2, 4 | **57.8** | **(38.1)** | **19.7** | 73.3 | (10.1) | 63.2 | 106.4 |
| Finance costs | 5 | **(48.9)** | **(0.3)** | **(49.2)** | (39.4) | (0.6) | (40.0) | (78.7) |
| Finance income | 5 | **0.5** | **-** | **0.5** | 0.3 | 0.2 | 0.5 | 0.9 |
| Interest rate swap movements | 4, 5 | **-** | **(4.2)** | **(4.2)** | - | (7.4) | (7.4) | (48.7) |
| Net finance costs | 4, 5 | **(48.4)** | **(4.5)** | **(52.9)** | (39.1) | (7.8) | (46.9) | (126.5) |
| **Profit/(loss) before taxation** | | **9.4** | **(42.6)** | **(33.2)** | 34.2 | (17.9) | 16.3 | (20.1) |
| Taxation | 4, 6 | **(1.8)** | **7.0** | **5.2** | (5.3) | 3.2 | (2.1) | 2.4 |
| **Profit/(loss) for the period attributable to equity shareholders** | | **7.6** | **(35.6)** | **(28.0)** | 28.9 | (14.7) | 14.2 | (17.7) |
| **(Loss)/earnings per share:** | | | | | | | | |
| Basic (loss)/earnings per share | 7 | | | **(4.4)p** | | | 2.2p | (2.8)p |
| Basic underlying earnings per share | 7 | | | **1.2p** | | | 4.6p | 12.7p |
| Diluted (loss)/earnings per share | 7 | | | **(4.4)p** | | | 2.2p | (2.8)p |
| Diluted underlying earnings per share | 7 | | | **1.2p** | | | 4.5p | 12.5p |

## GROUP STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the 26 weeks ended 28 March 2020

| | **26 weeks to 28 March 2020 £m** | 26 weeks to 30 March 2019 (Restated) £m | 52 weeks to 28 September 2019 (Restated) £m |
|---|---|---|---|
| (Loss)/profit for the period | **(28.0)** | 14.2 | (17.7) |
| **Items of other comprehensive income that may subsequently be reclassified to profit or loss** | | | |
| Losses arising on cash flow hedges | **(0.8)** | (16.9) | (20.5) |
| Transfers to the income statement on cash flow hedges | **10.8** | 5.3 | 11.2 |
| Tax on items that may subsequently be reclassified to profit or loss | **1.2** | 1.9 | 1.5 |
| | **11.2** | (9.7) | (7.8) |
| **Items of other comprehensive income that will not be reclassified to profit or loss** | | | |
| Remeasurement of retirement benefits | **29.5** | (37.7) | (54.7) |
| Unrealised surplus on revaluation of properties | **-** | 1.7 | 2.8 |
| Reversal of past revaluation surplus | **(0.9)** | - | (25.1) |
| Tax on items that will not be reclassified to profit or loss | **(13.5)** | 6.3 | 10.6 |
| | **15.1** | (29.7) | (66.4) |
| Other comprehensive income/(expense) for the period | **26.3** | (39.4) | (74.2) |
| Total comprehensive expense for the period | **(1.7)** | (25.2) | (91.9) |

## GROUP CASH FLOW STATEMENT (UNAUDITED)

For the 26 weeks ended 28 March 2020

| | Note | **26 weeks to 28 March 2020 £m** | 26 weeks to 30 March 2019 (Restated) £m | 52 weeks to 28 September 2019 (Restated) £m |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Underlying operating profit | | **57.8** | 73.3 | 172.8 |
| Depreciation and amortisation | | **27.6** | 20.5 | 42.2 |
| **Underlying EBITDA** | | **85.4** | 93.8 | 215.0 |
| Non-underlying operating items | 4 | **(38.1)** | (10.1) | (66.4) |
| **EBITDA** | | **47.3** | 83.7 | 148.6 |
| Working capital movement | | **(2.6)** | (12.4) | 10.3 |
| Non-cash movements | | **23.4** | (0.2) | 52.1 |
| Decrease in provisions and other non-current liabilities | | **(1.1)** | (0.9) | (3.4) |
| Difference between defined benefit pension contributions paid and amounts charged | | **(3.8)** | 0.6 | (3.0) |
| Income tax paid | | **(5.1)** | (4.0) | (9.0) |
| **Net cash inflow from operating activities** | | **58.1** | 66.8 | 195.6 |
| | | | | |
| **Investing activities** | | | | |
| Interest received | | **0.5** | 0.4 | 0.5 |
| Sale of property, plant and equipment and assets held for sale | | **61.2** | 29.4 | 49.8 |
| Purchase of property, plant and equipment and intangible assets | | **(45.1)** | (74.4) | (133.8) |
| Movement in trade loans | | **2.8** | - | 0.3 |
| Finance lease capital repayments received | | **1.2** | - | - |
| Net transfer from other cash deposits | | **-** | 118.0 | 118.0 |
| **Net cash inflow from investing activities** | | **20.6** | 73.4 | 34.8 |
| | | | | |
| **Financing activities** | | | | |
| Equity dividends paid | | **(30.4)** | (30.4) | (47.5) |
| Interest paid | | **(45.8)** | (43.8) | (74.4) |
| Arrangement costs of bank facilities | | **-** | (0.4) | (1.1) |
| Proceeds from sale of own shares | | **-** | - | 0.1 |
| Repayment of securitised debt | | **(16.4)** | (15.5) | (31.7) |
| Repayment of bank borrowings | | **(35.1)** | (0.3) | (0.7) |
| Advance of bank borrowings | | **-** | 75.4 | 48.6 |
| Capital element of lease liabilities repaid | | **(4.2)** | (7.4) | (7.5) |
| Advance/(repayment) of other borrowings | | **40.0** | - | (120.0) |
| **Net cash outflow from financing activities** | | **(91.9)** | (22.4) | (234.2) |
| **Net (decrease)/increase in cash and cash equivalents** | 9 | **(13.2)** | 117.8 | (3.8) |

## GROUP BALANCE SHEET (UNAUDITED)

As at 28 March 2020

| | Note | **28 March 2020 £m** | 30 March 2019 (Restated) £m | 28 September 2019 (Restated) £m | 29 September 2018 (Restated) £m |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Goodwill | | **230.3** | 230.3 | 230.3 | 230.3 |
| Other intangible assets | | **92.7** | 70.2 | 88.5 | 70.0 |
| Property, plant and equipment | 8 | **2,481.3** | 2,388.7 | 2,306.1 | 2,361.6 |
| Other non-current assets | | **25.0** | 9.6 | 9.3 | 9.6 |
| Deferred tax assets | | **-** | - | 5.8 | - |
| Retirement benefit surplus | | **-** | - | - | 15.6 |
| | | **2,829.3** | 2,698.8 | 2,640.0 | 2,687.1 |
| **Current assets** | | | | | |
| Inventories | | **38.2** | 47.1 | 43.6 | 44.6 |
| Trade and other receivables | | **66.3** | 94.4 | 90.9 | 104.9 |
| Current tax assets | | **7.9** | - | - | - |
| Other cash deposits | 9 | **2.0** | 2.0 | 2.0 | 120.0 |
| Cash and cash equivalents | 9 | **24.4** | 159.2 | 37.6 | 41.4 |
| | | **138.8** | 302.7 | 174.1 | 310.9 |
| **Assets held for sale** | | **1.3** | 4.7 | 1.7 | 2.3 |
| **Current liabilities** | | | | | |
| Borrowings | 9 | **(60.9)** | (183.6) | (54.9) | (158.4) |
| Derivative financial instruments | | **(181.9)** | (147.9) | (184.2) | (28.9) |
| Trade and other payables | | **(212.1)** | (236.4) | (248.3) | (252.2) |
| Current tax liabilities | | **-** | (2.4) | (1.7) | (4.0) |
| Provisions for other liabilities and charges | | **(0.5)** | (3.0) | (2.6) | (2.8) |
| | | **(455.4)** | (573.3) | (491.7) | (446.3) |
| **Non-current liabilities** | | | | | |
| Borrowings | 9 | **(1,664.4)** | (1,415.9) | (1,383.4) | (1,389.0) |
| Derivative financial instruments | | **(47.8)** | (48.6) | (51.3) | (148.6) |
| Other non-current liabilities | | **(3.3)** | (2.0) | (2.6) | (1.5) |
| Provisions for other liabilities and charges | | **(6.1)** | (21.6) | (19.7) | (22.5) |
| Deferred tax liabilities | | **(59.3)** | (64.1) | (56.5) | (73.8) |
| Retirement benefit obligations | | **(3.9)** | (23.0) | (36.4) | - |
| | | **(1,784.8)** | (1,575.2) | (1,549.9) | (1,635.4) |
| **Net assets** | | **729.2** | 857.7 | 774.2 | 918.6 |
| **Shareholders' equity** | | | | | |
| Equity share capital | | **48.7** | 48.7 | 48.7 | 48.7 |
| Share premium account | | **334.0** | 334.0 | 334.0 | 334.0 |
| Revaluation reserve | | **557.6** | 597.6 | 573.4 | 600.2 |
| Merger reserve | | **23.7** | 23.7 | 23.7 | 23.7 |
| Capital redemption reserve | | **6.8** | 6.8 | 6.8 | 6.8 |
| Hedging reserve | | **(114.7)** | (127.8) | (125.9) | (118.1) |
| Own shares | | **(111.9)** | (112.1) | (112.0) | (112.3) |
| Retained earnings | | **(15.0)** | 86.8 | 25.5 | 135.6 |
| **Total equity** | | **729.2** | 857.7 | 774.2 | 918.6 |

## GROUP STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the 26 weeks ended 28 March 2020

| | Equity share capital £m | Share premium account £m | Revaluation reserve £m | Merger reserve £m | Capital redemption reserve £m | Hedging reserve £m | Own shares £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|
| At 28 September 2019 (as originally reported) | 48.7 | 334.0 | 598.9 | 23.7 | 6.8 | (125.9) | (112.0) | 36.9 | 811.1 |
| Correction of error | - | - | - | - | - | - | - | 3.6 | 3.6 |
| Adjustment for asset class split | - | - | (29.9) | - | - | - | - | (14.4) | (44.3) |
| Tax impact of asset class split | - | - | 4.4 | - | - | - | - | (0.6) | 3.8 |
| At 28 September 2019 (as restated) | 48.7 | 334.0 | 573.4 | 23.7 | 6.8 | (125.9) | (112.0) | 25.5 | 774.2 |
| Adjustment for adoption of IFRS 16 | - | - | - | - | - | - | - | (15.9) | (15.9) |
| Tax impact of IFRS 16 adjustment | - | - | - | - | - | - | - | 3.0 | 3.0 |
| At 29 September 2019 (as adjusted) | 48.7 | 334.0 | 573.4 | 23.7 | 6.8 | (125.9) | (112.0) | 12.6 | 761.3 |
| Loss for the period | - | - | - | - | - | - | - | (28.0) | (28.0) |
| Remeasurement of retirement benefits | - | - | - | - | - | - | - | 29.5 | 29.5 |
| Tax on remeasurement of retirement benefits | - | - | - | - | - | - | - | (4.9) | (4.9) |
| Losses on cash flow hedges | - | - | - | - | - | (0.8) | - | - | (0.8) |
| Transfers to the income statement on cash flow hedges | - | - | - | - | - | 10.8 | - | - | 10.8 |
| Tax on hedging reserve movements | - | - | - | - | - | 1.2 | - | - | 1.2 |
| Property impairment | - | - | (0.9) | - | - | - | - | - | (0.9) |
| Deferred tax on properties | - | - | (8.6) | - | - | - | - | - | (8.6) |
| Total comprehensive (expense)/income | - | - | (9.5) | - | - | 11.2 | - | (3.4) | (1.7) |
| Share-based payments | - | - | - | - | - | - | - | 0.1 | 0.1 |
| Tax on share-based payments | - | - | - | - | - | - | - | (0.1) | (0.1) |
| Sale of own shares | - | - | - | - | - | - | 0.1 | (0.1) | - |
| Transfer disposals to retained earnings | - | - | (6.9) | - | - | - | - | 6.9 | - |
| Transfer tax to retained earnings | - | - | 0.6 | - | - | - | - | (0.6) | - |
| Dividends paid | - | - | - | - | - | - | - | (30.4) | (30.4) |
| Total transactions with owners | - | - | (6.3) | - | - | - | 0.1 | (24.2) | (30.4) |
| **At 28 March 2020** | **48.7** | **334.0** | **557.6** | **23.7** | **6.8** | **(114.7)** | **(111.9)** | **(15.0)** | **729.2** |

# GROUP STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the 26 weeks ended 30 March 2019

| | Equity share capital £m | Share premium account £m | Revaluation reserve (Restated) £m | Merger reserve £m | Capital redemption reserve £m | Hedging reserve £m | Own shares £m | Retained earnings (Restated) £m | Total equity (Restated) £m |
|---|---|---|---|---|---|---|---|---|---|
| At 29 September 2018 (as originally reported) | 48.7 | 334.0 | 627.2 | 23.7 | 6.8 | (118.1) | (112.3) | 147.6 | 957.6 |
| Correction of error | - | - | - | - | - | - | - | 3.6 | 3.6 |
| Adjustment for asset class split | - | - | (31.6) | - | - | - | - | (14.9) | (46.5) |
| Tax impact of asset class split | - | - | 4.6 | - | - | - | - | (0.7) | 3.9 |
| At 29 September 2018 (as restated) | 48.7 | 334.0 | 600.2 | 23.7 | 6.8 | (118.1) | (112.3) | 135.6 | 918.6 |
| Adjustment for adoption of IFRS 9 | - | - | - | - | - | - | - | (6.7) | (6.7) |
| Tax impact of IFRS 9 adjustment | - | - | - | - | - | - | - | 1.2 | 1.2 |
| At 30 September 2018 (as restated) | 48.7 | 334.0 | 600.2 | 23.7 | 6.8 | (118.1) | (112.3) | 130.1 | 913.1 |
| Profit for the period | - | - | - | - | - | - | - | 14.2 | 14.2 |
| Remeasurement of retirement benefits | - | - | - | - | - | - | - | (37.7) | (37.7) |
| Tax on remeasurement of retirement benefits | - | - | - | - | - | - | - | 6.5 | 6.5 |
| Losses on cash flow hedges | - | - | - | - | - | (16.9) | - | - | (16.9) |
| Transfers to the income statement on cash flow hedges | - | - | - | - | - | 5.3 | - | - | 5.3 |
| Tax on hedging reserve movements | - | - | - | - | - | 1.9 | - | - | 1.9 |
| Property revaluation | - | - | 1.7 | - | - | - | - | - | 1.7 |
| Deferred tax on properties | - | - | (0.2) | - | - | - | - | - | (0.2) |
| Total comprehensive income/(expense) | - | - | 1.5 | - | - | (9.7) | - | (17.0) | (25.2) |
| Share-based payments | - | - | - | - | - | - | - | 0.2 | 0.2 |
| Sale of own shares | - | - | - | - | - | - | 0.2 | (0.2) | - |
| Transfer disposals to retained earnings | - | - | (4.6) | - | - | - | - | 4.6 | - |
| Transfer tax to retained earnings | - | - | 0.5 | - | - | - | - | (0.5) | - |
| Dividends paid | - | - | - | - | - | - | - | (30.4) | (30.4) |
| Total transactions with owners | - | - | (4.1) | - | - | - | 0.2 | (26.3) | (30.2) |
| **At 30 March 2019** | **48.7** | **334.0** | **597.6** | **23.7** | **6.8** | **(127.8)** | **(112.1)** | **86.8** | **857.7** |

# NOTES

### 1 BASIS OF PREPARATION OF INTERIM FINANCIAL INFORMATION

This interim financial information has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The same accounting policies, presentation and methods of computation are followed in the interim financial information as applied in the Group's audited financial statements for the 52 weeks ended 28 September 2019, apart from the following changes and corrections:

- The Group has identified an error regarding the amount of deferred tax recognised in respect of land and buildings which were held under finance leases under IAS 17 'Leases'. As such the comparatives for the 26 weeks ended 30 March 2019 and the 52 weeks ended 28 September 2019 have been restated in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Full details are provided in note 14.

- The Group has split the land and buildings asset class within property, plant and equipment into an effective freehold class, held under the revaluation model, and a leasehold class, held under the cost model. This change has been applied retrospectively in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and as such the comparatives for the 26 weeks ended 30 March 2019 and the 52 weeks ended 28 September 2019 have been restated. Full details are provided in note 15.

- The Group has adopted IFRS 16 'Leases' in the current period using the modified retrospective approach in paragraph C5(b) of the standard, whereby comparative amounts have not been restated and the cumulative effect of initially applying the standard has been recognised as an adjustment to opening retained earnings at 29 September 2019. IFRS 16 introduces an 'on balance sheet' model for lessees and as such the Group has recognised a lease liability within borrowings in respect of the majority of its previous operating leases along with either a right-of-use asset in property, plant and equipment or a finance lease receivable (for some sublet properties). The rental payments/receipts previously charged/credited to the income statement are treated as repayments of the lease liability/finance lease receivable and the income statement now includes depreciation of the right-of-use asset and interest on the lease liability/finance lease receivable. Further details of the adoption of IFRS 16 are provided in note 16.

The financial information for the 52 weeks ended 28 September 2019 is extracted from the audited accounts for that period, which have been delivered to the Registrar of Companies. The Auditors' report was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The interim financial information does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The interim financial information for the 26 weeks ended 28 March 2020 and the comparatives to 30 March 2019 are unaudited.

The Group does not consider that any standards or interpretations issued by the International Accounting Standards Board, but not yet applicable, will have a significant impact on the financial statements for the 53 weeks ending 3 October 2020.

At present the Group's pubs remain closed in accordance with UK Government advice in relation to the COVID-19 outbreak. The Directors have performed a going concern assessment in relation to the interim financial information by preparing cash flow forecasts for the period to 30 June 2021 and comparing these to the Group's financial resources and borrowing facilities. These forecasts include a base case forecast assuming that the pubs recommence trading from July and a reasonable worst case scenario which assumes the pubs recommence trading from October. These forecasts show that in this reasonable worst case scenario if the proposed disposal of the Group's brewing operations does not complete then the Group will need to secure additional funds in order to meet its liabilities as they fall due throughout the forecast period. These forecasts also show that in this scenario, even if the disposal does complete, the Group would need to obtain further covenant waivers from its bondholders. Both these matters represent material uncertainties over the Group's ability to continue to trade as a going concern over the foreseeable future being a period of at least 12 months from the date of the interim financial information.

The Directors note that the COVID-19 outbreak has reduced the number of recent observable property transactions and may have an impact on the profitability of pubs over the coming months and even years. This represents a material uncertainty in connection with the property valuation recorded in note 8.

### 2 SEGMENT REPORTING

| Revenue by segment | **28 March 2020 £m** | 30 March 2019 (Restated) £m |
|---|---|---|
| Pubs and Bars | **343.3** | 369.9 |
| Brewing | **167.2** | 183.2 |
| Group Services | **-** | - |
| Revenue | **510.5** | 553.1 |

| Underlying operating profit by segment | **28 March 2020 £m** | 30 March 2019 (Restated) £m |
|---|---|---|
| Pubs and Bars | **62.7** | 71.7 |
| Brewing | **10.7** | 14.5 |
| Group Services | **(15.6)** | (12.9) |
| Underlying operating profit | **57.8** | 73.3 |
| Non-underlying operating items | **(38.1)** | (10.1) |
| Operating profit | **19.7** | 63.2 |
| Net finance costs | **(52.9)** | (46.9) |
| (Loss)/profit before taxation | **(33.2)** | 16.3 |

Underlying operating profit is a key measure of profitability used by the chief operating decision maker.

## NOTES

### 2 SEGMENT REPORTING (CONTINUED)

In the prior period the Group had four distinguishable operating segments being Destination and Premium, Taverns, Brewing and Group Services. Following a reorganisation of the pub operational and commercial structure, the pub business has now merged into one segment and is no longer operated as Destination and Premium and Taverns. The results of the merged operations are now presented as one combined 'Pubs and Bars' segment in the reporting to the chief operating decision maker and management decisions are made on a combined basis. The results for the 26 weeks ended 30 March 2019 have been restated to reflect the merging of these two segments.

### 3 REVENUE

| Revenue | **28 March 2020 £m** | 30 March 2019 £m |
|---|---|---|
| Retail sales | | |
| Pubs and Bars | **318.7** | 340.3 |
| Wholesale sales | | |
| Pubs and Bars | **18.2** | 22.2 |
| Brewing | **155.8** | 172.5 |
| | **174.0** | 194.7 |
| Contract services | | |
| Brewing | **11.4** | 10.7 |
| Revenue from contracts with customers | **504.1** | 545.7 |
| Rental income | | |
| Pubs and Bars | **6.4** | 7.4 |
| Total revenue | **510.5** | 553.1 |

### 4 NON-UNDERLYING ITEMS

In order to illustrate the underlying trading performance of the Group, presentation has been made of performance measures excluding those items which it is considered would distort the comparability of the Group's results. In the current and prior period the only non-underlying items were exceptional items.

Exceptional items are defined as those items that, by virtue of their nature, size or expected frequency, warrant separate additional disclosure in the financial statements in order to fully understand the underlying performance of the Group. As management of the freehold and leasehold property estate is an essential and significant area of the business, the threshold for classification of property related items as exceptional is higher than other items.

| | **28 March 2020 £m** | 30 March 2019 £m |
|---|---|---|
| **Exceptional operating items** | | |
| Impact of change in rate assumptions used for provisions | **-** | 1.1 |
| Reorganisation and integration costs | **-** | 4.4 |
| Past service cost in respect of Guaranteed Minimum Pension equalisation | **-** | 4.6 |
| Portfolio disposals | **21.9** | - |
| Impact of COVID-19 | **16.2** | - |
| | **38.1** | 10.1 |
| **Exceptional non-operating items** | | |
| Net interest on net defined benefit asset/liability | **0.3** | (0.2) |
| Swap recouponing fees | **-** | 0.6 |
| Interest rate swap movements | **4.2** | 7.4 |
| | **4.5** | 7.8 |
| **Total non-underlying items** | **42.6** | 17.9 |

*Portfolio disposals*
As part of its debt reduction strategy, the Group has disposed of two portfolios of smaller wet-led leased, tenanted and franchised pubs and associated properties in the current period. The net loss on disposal and associated costs have been classed as an exceptional item.

*Impact of COVID-19*
In order to mitigate the spread of COVID-19 the UK government announced that all pubs were required to close from 21 March 2020 and various other social distancing measures have been introduced. This has had a significant impact on the Group's business and its customers. The associated costs/charges, which primarily comprise bad debt provisions and stock write-offs, have been classified as an exceptional item. The charge includes £1.2 million in respect of any pub related costs incurred after their closure on 21 March 2020.

*Net interest on net defined benefit asset/liability*
The net interest on the net defined benefit asset/liability in respect of the Group's defined benefit pension plan was a charge of £0.3 million (2019: credit of £0.2 million).

*Interest rate swap movements*
The Group's interest rate swaps are revalued to fair value at each balance sheet date. For interest rate swaps which were designated as part of a hedging relationship a loss of £0.8 million (2019: £16.9 million) has been recognised in the hedging reserve in respect of the effective portion of the fair value movement and £3.4 million (2019: £5.3 million) has been reclassified from the hedging reserve to underlying finance costs in the income statement in respect of the cash paid in the period.

#### 4 NON-UNDERLYING ITEMS (CONTINUED)

The ineffective portion of the fair value movement has been recognised within the income statement. The cash paid of £0.9 million (2019: £nil) has been recognised within underlying finance costs to ensure that underlying finance costs reflect the resulting fixed rate paid on the associated debt. The remainder of the ineffective portion of the fair value movement, a gain of £0.9 million (2019: £3.0 million), has been recognised within non-underlying items. In addition £7.4 million (2019: £nil) of the balance remaining in the hedging reserve in respect of discontinued cash flow hedges has been reclassified to the income statement within non-underlying items.

For interest rate swaps which were not designated as part of a hedging relationship the fair value movement has been recognised within the income statement. The cash paid of £5.4 million (2019: £1.2 million) has been recognised within underlying finance costs to ensure that underlying finance costs reflect the resulting fixed rate paid on the associated debt. The remainder of the fair value movement, a gain of £2.3 million (2019: loss of £10.4 million), equal to the change in the carrying value of the interest rate swaps in the period or from when hedge accounting ceased to be applied, has been recognised within non-underlying items.

As a result of the recouponing of the interest rate swap that fixes the interest rate payable on the floating rate elements of the Group's A1, A2, A3 and B securitised notes on 27 March 2019, the hedging relationship between this interest rate swap and the associated debt ceased to meet the qualifying criteria for hedge accounting. The cumulative hedging loss existing in equity at 27 March 2019 remained in equity and is being recognised when the forecast transaction is ultimately recognised in the income statement. Fair value movements in respect of this interest rate swap after 27 March 2019 have been recognised wholly in the income statement.

*Impact of taxation*
The current tax credit relating to the above non-underlying items amounts to £3.1 million (2019: £1.7 million). The deferred tax credit relating to the above non-underlying items amounts to £4.5 million (2019: £1.5 million). In addition, there is a non-underlying deferred tax charge of £0.6 million (2019: £nil) in relation to the change in corporation tax rate.

*Prior period non-underlying items*
The update of the discount rate assumptions used in the calculation of the Group's property lease provisions at the prior period end resulted in an increase of £1.1 million in the total provision.

During the prior period the Group incurred reorganisation and integration costs of £4.4 million primarily as a result of the acquisition of the beer business of Charles Wells in the period ended 30 September 2017.

On 26 October 2018 a High Court ruling indicated that Guaranteed Minimum Pensions must be equalised for men and women. This requirement was reflected in the calculation of the Group's net defined benefit asset/liability at 30 March 2019 and the resulting additional past service cost was presented as an exceptional item in the prior period.

In the prior period the Group incurred fees of £0.6 million in relation to the above swap recouponing.

#### 5 FINANCE COSTS AND INCOME

| | **28 March 2020 £m** | 30 March 2019 £m |
|---|---|---|
| **Finance costs** | | |
| Bank borrowings | **8.6** | 6.8 |
| Securitised debt | **20.1** | 21.1 |
| Lease liabilities | **8.1** | 0.7 |
| Other lease related borrowings | **10.4** | 9.8 |
| Other interest payable and similar charges | **1.7** | 1.0 |
| | **48.9** | 39.4 |
| **Exceptional finance costs** | | |
| Net interest on net defined benefit asset/liability | **0.3** | - |
| Swap recouponing fees | **-** | 0.6 |
| | **0.3** | 0.6 |
| **Total finance costs** | **49.2** | 40.0 |
| **Finance income** | | |
| Deposit and other interest receivable | **(0.5)** | (0.3) |
| | **(0.5)** | (0.3) |
| **Exceptional finance income** | | |
| Net interest on net defined benefit asset/liability | **-** | (0.2) |
| | **-** | (0.2) |
| **Total finance income** | **(0.5)** | (0.5) |
| **Interest rate swap movements** | | |
| Hedge ineffectiveness on cash flow hedges (net of cash paid) | **(0.9)** | (3.0) |
| Change in carrying value of interest rate swaps | **(2.3)** | 10.4 |
| Transfer of hedging reserve balance in respect of discontinued hedges | **7.4** | - |
| | **4.2** | 7.4 |
| **Net finance costs** | **52.9** | 46.9 |

## NOTES

### 6 TAXATION

The underlying taxation charge for the 26 weeks ended 28 March 2020 has been calculated by applying an estimate of the underlying effective tax rate for the 53 weeks ending 3 October 2020 of approximately 19.1% (26 weeks ended 30 March 2019: approximately 15.5%).

| | **28 March 2020 £m** | 30 March 2019 (Restated) £m |
|---|---|---|
| Current tax | **(4.4)** | 2.4 |
| Deferred tax | **(0.8)** | (0.3) |
| | **(5.2)** | 2.1 |

The taxation (credit)/charge includes a current tax credit of £3.1 million (2019: £1.7 million) and a deferred tax credit of £4.5 million (2019: £1.5 million) relating to the tax on non-underlying items. In addition, there is a non-underlying deferred tax charge of £0.6 million (2019: £nil) in relation to the change in corporation tax rate.

### 7 EARNINGS PER ORDINARY SHARE

Basic earnings per share are calculated by dividing the profit/(loss) attributable to equity shareholders by the weighted average number of ordinary shares in issue during the period, excluding treasury shares and those held on trust for employee share schemes.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the weighted average market price of the Company's shares during the period.

Underlying earnings per share figures are presented to exclude the effect of exceptional items. The Directors consider that the supplementary figures are a useful indicator of performance.

| | **28 March 2020** | | 30 March 2019 (Restated) | |
|---|---|---|---|---|
| | **Earnings £m** | **Per share amount p** | Earnings £m | Per share amount p |
| Basic (loss)/earnings per share | **(28.0)** | **(4.4)** | 14.2 | 2.2 |
| Diluted (loss)/earnings per share* | **(28.0)** | **(4.4)** | 14.2 | 2.2 |
| **Underlying earnings per share figures** | | | | |
| Basic underlying earnings per share | **7.6** | **1.2** | 28.9 | 4.6 |
| Diluted underlying earnings per share | **7.6** | **1.2** | 28.9 | 4.5 |

*The 2020 diluted loss per share is the same as the basic loss per share as the inclusion of the dilutive potential ordinary shares would reduce the loss per share and as such is not dilutive in accordance with IAS 33 'Earnings per Share'.

| | **28 March 2020 m** | 30 March 2019 m |
|---|---|---|
| Basic weighted average number of shares | **632.7** | 632.6 |
| Dilutive options | **8.6** | 8.7 |
| Diluted weighted average number of shares | **641.3** | 641.3 |

### 8 PROPERTY, PLANT AND EQUIPMENT

| | **£m** |
|---|---|
| Net book amount at 29 September 2019 (as originally stated) | 2,350.4 |
| Adjustment for asset class split | (44.3) |
| Net book amount at 29 September 2019 (as restated) | 2,306.1 |
| Adjustment for adoption of IFRS 16 | 244.6 |
| Additions | 41.5 |
| Net transfers to assets held for sale and disposals | (82.7) |
| Depreciation, revaluation and other movements | (28.2) |
| **Net book amount at 28 March 2020** | **2,481.3** |

| | **(Restated) £m** |
|---|---|
| Net book amount at 30 September 2018 (as originally stated) | 2,408.1 |
| Adjustment for asset class split | (46.5) |
| Net book amount at 30 September 2018 (as restated) | 2,361.6 |
| Additions | 70.5 |
| Net transfers to assets held for sale and disposals | (25.2) |
| Depreciation, revaluation and other movements | (18.2) |
| **Net book amount at 30 March 2019** | **2,388.7** |

## 8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

**Revaluation/impairment**
During the current and prior period various properties were reviewed for impairment and/or material changes in value. These valuations were incorporated into the financial statements and the resulting revaluation adjustments were taken to the revaluation reserve or income statement as appropriate. The impact of these revaluations/impairments is as follows:

| | **28 March 2020 £m** | 30 March 2019 £m |
|---|---|---|
| **Income statement:** | | |
| Impairment | **(1.2)** | - |
| | **(1.2)** | - |
| **Revaluation reserve:** | | |
| Unrealised revaluation surplus | **-** | 1.7 |
| Reversal of past revaluation surplus | **(0.9)** | - |
| | **(0.9)** | 1.7 |
| Net (decrease)/increase in shareholders' equity/property, plant and equipment | **(2.1)** | 1.7 |

The net loss on disposal of property, plant and equipment, intangible assets and assets held for sale was £22.2 million (2019 (restated): profit of £0.3 million). A loss on disposal of £0.7 million (2019 (restated): profit of £0.6 million) has been included within the Group's underlying results.

## 9 NET DEBT

| **Analysis of net debt** | **28 March 2020 £m** | Cash flow £m | Non-cash movements and deferred issue costs £m | Adjustment for adoption of IFRS 16 £m | 28 September 2019 £m |
|---|---|---|---|---|---|
| **Cash and cash equivalents** | | | | | |
| Cash at bank and in hand | **24.4** | (13.2) | - | - | 37.6 |
| | **24.4** | (13.2) | - | - | 37.6 |
| **Financial assets** | | | | | |
| Other cash deposits | **2.0** | - | - | - | 2.0 |
| | **2.0** | - | - | - | 2.0 |
| **Debt due within one year** | | | | | |
| Bank borrowings | **(11.5)** | 11.1 | (1.1) | - | (21.5) |
| Securitised debt | **(33.9)** | 16.4 | (17.4) | - | (32.9) |
| Lease liabilities | **(15.8)** | 4.2 | (5.9) | (13.3) | (0.8) |
| Other lease related borrowings | **0.3** | - | - | - | 0.3 |
| | **(60.9)** | 31.7 | (24.4) | (13.3) | (54.9) |
| **Debt due after one year** | | | | | |
| Bank borrowings | **(288.6)** | 24.0 | 0.7 | - | (313.3) |
| Securitised debt | **(695.0)** | - | 17.2 | - | (712.2) |
| Lease liabilities | **(303.8)** | - | (0.7) | (282.0) | (21.1) |
| Other lease related borrowings | **(336.9)** | - | (0.2) | - | (336.7) |
| Other borrowings | **(40.0)** | (40.0) | - | - | - |
| Preference shares | **(0.1)** | - | - | - | (0.1) |
| | **(1,664.4)** | (16.0) | 17.0 | (282.0) | (1,383.4) |
| **Net debt** | **(1,698.9)** | 2.5 | (7.4) | (295.3) | (1,398.7) |

Other cash deposits comprises deposits securing letters of credit for reinsurance contracts. Included within cash and cash equivalents is an amount of £6.5 million (at 28 September 2019: £6.6 million), which relates to collateral held in the form of cash deposits. These amounts are considered to be restricted cash. In addition, any cash held in connection with the securitised business is governed by certain restrictions under the covenants associated with the securitisation.

| **Reconciliation of net cash flow to movement in net debt** | **28 March 2020 £m** | 30 March 2019 £m |
|---|---|---|
| (Decrease)/increase in cash and cash equivalents in the period | **(13.2)** | 117.8 |
| Decrease in other cash deposits | **-** | (118.0) |
| Cash outflow/(inflow) from movement in debt | **15.7** | (52.2) |
| Change in debt resulting from cash flows | **2.5** | (52.4) |
| Non-cash movements and deferred issue costs | **(7.4)** | 0.1 |
| Movement in net debt in the period | **(4.9)** | (52.3) |
| Net debt at beginning of the period | **(1,398.7)** | (1,386.0) |
| Adjustment for adoption of IFRS 16 | **(295.3)** | - |
| **Net debt at end of the period** | **(1,698.9)** | (1,438.3) |

**9 NET DEBT (CONTINUED)**

| | 28 March 2020 £m | 30 March 2019 £m |
|---|---|---|
| Net debt excluding lease liabilities | **(1,379.3)** | (1,417.9) |
| Lease liabilities | **(319.6)** | (20.4) |
| **Net debt** | **(1,698.9)** | (1,438.3) |

**10 FINANCIAL INSTRUMENTS**

The only financial instruments which the Group holds at fair value are trade loans and derivative financial instruments, which are classified as at fair value through profit or loss or derivatives used for hedging.

**Fair value hierarchy**
IFRS 13 'Fair Value Measurement' requires fair value measurements to be recognised using a fair value hierarchy that reflects the significance of the inputs used in the measurements, according to the following levels:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 – inputs for the asset or liability that are not based on observable market data.

The tables below show the levels in the fair value hierarchy within which fair value measurements have been categorised:

| | **28 March 2020** | | | | 28 September 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| **Assets as per the balance sheet** | **Level 1 £m** | **Level 2 £m** | **Level 3 £m** | **Total £m** | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
| Trade loans | **-** | **-** | **6.5** | **6.5** | - | - | 9.3 | 9.3 |

| | **28 March 2020** | | | | 28 September 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| **Liabilities as per the balance sheet** | **Level 1 £m** | **Level 2 £m** | **Level 3 £m** | **Total £m** | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
| Derivative financial instruments | **-** | **229.7** | **-** | **229.7** | - | 235.5 | - | 235.5 |

There were no transfers between Levels 1, 2 and 3 fair value measurements during the current or prior period.

The Level 2 fair values of derivative financial instruments have been obtained using a market approach and reflect the estimated amount the Group would expect to pay or receive on termination of the instruments, adjusted for the Group's own credit risk. The Group utilises valuations from counterparties who use a variety of assumptions based on market conditions existing at each balance sheet date. The fair values are highly sensitive to the inputs to the valuations, such as discount rates, analysis of credit risk and yield curves.

The Level 3 fair values of trade loans reflect the loan balances outstanding net of any deemed impairment.

The fair values of all the Group's other financial instruments are equal to their book values, with the exception of borrowings. The carrying amount less impairment provision of finance lease receivables, trade receivables and other receivables, and the carrying amount of trade payables and other payables, are assumed to approximate their fair values. The carrying amount (excluding unamortised issue costs) and the fair value of the Group's borrowings are as follows:

| | **Carrying amount** | | **Fair value** | |
|---|---|---|---|---|
| | **28 March 2020 £m** | 28 September 2019 £m | **28 March 2020 £m** | 28 September 2019 £m |
| Bank borrowings | **303.0** | 338.1 | **303.0** | 338.1 |
| Securitised debt | **733.0** | 749.4 | **707.0** | 725.5 |
| Lease liabilities | **319.6** | 21.9 | **319.6** | 21.9 |
| Other lease related borrowings | **361.7** | 361.7 | **361.7** | 361.7 |
| Other borrowings | **40.0** | - | **40.0** | - |
| Preference shares | **0.1** | 0.1 | **0.1** | 0.1 |
| | **1,757.4** | 1,471.2 | **1,731.4** | 1,447.3 |

**11 SIGNIFICANT EVENTS AND TRANSACTIONS**

Additional contributions of £3.8 million (26 weeks ended 30 March 2019: £4.0 million) were made in the period to the Marston's PLC Pension and Life Assurance Scheme.

There were no significant related party transactions during the period (26 weeks ended 30 March 2019: none).

Further detail regarding significant events and transactions that have taken place since 28 September 2019 is provided outside of the interim financial statements in the Group Overview and the Performance and Financial Review.

**12 CAPITAL COMMITMENTS**

Capital expenditure authorised and committed at the period end but not provided for in this interim financial information was £2.5 million (at 28 September 2019: £3.5 million).

## NOTES

### 13 CONTINGENT LIABILITIES

There have been no material changes to contingent liabilities since 28 September 2019.

### 14 CORRECTION OF ERROR

The Group has identified an error regarding the amount of deferred tax recognised in respect of land and buildings which were held under finance leases under IAS 17 'Leases'. This error has been corrected by retrospective restatement in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

The impact of this retrospective restatement on the Group balance sheet as at 30 March 2019, 28 September 2019 and 29 September 2018 has been set out below. There was no impact on the Group income statement, Group statement of comprehensive income, Group cash flow statement or earnings per share for the 26 weeks ended 30 March 2019 or the 52 weeks ended 28 September 2019. The adjustments shown below are before those made in respect of the asset class split detailed in note 15.

**As at 30 March 2019**

| **Impact on the Group balance sheet** | As originally stated £m | Adjustment £m | Restated amount £m |
|---|---|---|---|
| Deferred tax liabilities | (72.1) | 3.6 | (68.5) |
| Other assets and liabilities | 971.1 | - | 971.1 |
| **Net assets** | 899.0 | 3.6 | 902.6 |
| | | | |
| Retained earnings | 100.5 | 3.6 | 104.1 |
| Other capital and reserves | 798.5 | - | 798.5 |
| **Total equity** | 899.0 | 3.6 | 902.6 |

**As at 28 September 2019**

| **Impact on the Group balance sheet** | As originally stated £m | Adjustment £m | Restated amount £m |
|---|---|---|---|
| Deferred tax liabilities | (63.9) | 3.6 | (60.3) |
| Other assets and liabilities | 875.0 | - | 875.0 |
| **Net assets** | 811.1 | 3.6 | 814.7 |
| | | | |
| Retained earnings | 36.9 | 3.6 | 40.5 |
| Other capital and reserves | 774.2 | - | 774.2 |
| **Total equity** | 811.1 | 3.6 | 814.7 |

**As at 29 September 2018**

| **Impact on the Group balance sheet** | As originally stated £m | Adjustment £m | Restated amount £m |
|---|---|---|---|
| Deferred tax liabilities | (81.3) | 3.6 | (77.7) |
| Other assets and liabilities | 1,038.9 | - | 1,038.9 |
| **Net assets** | 957.6 | 3.6 | 961.2 |
| | | | |
| Retained earnings | 147.6 | 3.6 | 151.2 |
| Other capital and reserves | 810.0 | - | 810.0 |
| **Total equity** | 957.6 | 3.6 | 961.2 |

## NOTES

### 15 ASSET CLASS SPLIT

In order to provide more reliable and relevant information in respect of its property assets the Group has split the land and buildings asset class within property, plant and equipment into an effective freehold class and a leasehold class.

The effective freehold class comprises land and buildings which are either freehold or are in substance freehold assets. This includes leasehold land and buildings with a term exceeding 100 years at acquisition/commencement of the lease or where there is an option to purchase the freehold at the end of the lease term for a nominal amount. The leasehold class comprises all other leasehold land and buildings.

It is considered that the two groupings above comprise assets which have a different nature and use within the Group's operations and as such it is appropriate to classify them as separate asset classes under IAS 16 'Property, Plant and Equipment'. Leasehold assets derive their value solely from generating income over the lease term and their use/development can be restricted, whereas with effective freehold assets there is additional value from the underlying property asset (including alternative uses and development potential), the assets can be used as security and the value of the property asset is generally maintained over time. It is considered that providing information separately for these two different classes will provide more reliable and relevant information.

The Group has adopted the revaluation model for the effective freehold class and the cost model for the leasehold class. The land and buildings asset class has been held under the revaluation model and as such the measurement basis for assets in the leasehold class has changed. This has been treated as a change in accounting policy and has been applied retrospectively in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and as such the comparatives for the 26 weeks ended 30 March 2019 and the 52 weeks ended 28 September 2019 have been restated.

The impact of this retrospective restatement on the Group income statement, Group statement of comprehensive income, Group cash flow statement, Group balance sheet and earnings per share for the 26 weeks ended 30 March 2019 and the 52 weeks ended 28 September 2019, and on the Group balance sheet as at 29 September 2018, has been set out below. The adjustments, where applicable, are after the error restatement detailed in note 14.

**26 weeks ended 30 March 2019**

| Impact on the Group income statement | As originally stated £m | Adjustment £m | Restated amount £m |
|---|---|---|---|
| **Revenue** | 553.1 | - | 553.1 |
| Operating expenses | (487.1) | (2.8) | (489.9) |
| **Operating profit** | 66.0 | (2.8) | 63.2 |
| Net finance costs | (46.9) | - | (46.9) |
| **Profit before taxation** | 19.1 | (2.8) | 16.3 |
| Taxation | (2.6) | 0.5 | (2.1) |
| **Profit for the period attributable to equity shareholders** | 16.5 | (2.3) | 14.2 |

| Impact on the Group statement of comprehensive income | As originally stated £m | Adjustment £m | Restated amount £m |
|---|---|---|---|
| Profit for the period | 16.5 | (2.3) | 14.2 |
| Items of other comprehensive income that may subsequently be reclassified to profit or loss | (9.7) | - | (9.7) |
| Items of other comprehensive income that will not be reclassified to profit or loss | (29.7) | - | (29.7) |
| Other comprehensive expense for the period | (39.4) | - | (39.4) |
| Total comprehensive expense for the period | (22.9) | (2.3) | (25.2) |

| Impact on the Group cash flow statement | As originally stated £m | Adjustment £m | Restated amount £m |
|---|---|---|---|
| **Operating activities** | | | |
| Underlying operating profit | 76.1 | (2.8) | 73.3 |
| Depreciation and amortisation | 21.1 | (0.6) | 20.5 |
| **Underlying EBITDA** | 97.2 | (3.4) | 93.8 |
| Non-underlying operating items | (10.1) | - | (10.1) |
| **EBITDA** | 87.1 | (3.4) | 83.7 |
| Working capital movement | (12.4) | - | (12.4) |
| Non-cash movements | (3.6) | 3.4 | (0.2) |
| Decrease in provisions and other non-current liabilities | (0.9) | - | (0.9) |
| Difference between defined benefit pension contributions paid and amounts charged | 0.6 | - | 0.6 |
| Income tax paid | (4.0) | - | (4.0) |
| **Net cash inflow from operating activities** | 66.8 | - | 66.8 |

## NOTES

### 15 ASSET CLASS SPLIT (CONTINUED)

| Impact on the Group balance sheet | As stated following correction of error £m | Adjustment £m | Restated amount £m |
|---|---|---|---|
| Property, plant and equipment | 2,438.0 | (49.3) | 2,388.7 |
| Deferred tax liabilities | (68.5) | 4.4 | (64.1) |
| Other assets and liabilities | (1,466.9) | - | (1,466.9) |
| **Net assets** | 902.6 | (44.9) | 857.7 |
| | | | |
| Revaluation reserve | 625.2 | (27.6) | 597.6 |
| Retained earnings | 104.1 | (17.3) | 86.8 |
| Other capital and reserves | 173.3 | - | 173.3 |
| **Total equity** | 902.6 | (44.9) | 857.7 |

| Impact on earnings per share | As originally stated p | Adjustment p | Restated amount p |
|---|---|---|---|
| Basic earnings per share | 2.6 | (0.4) | 2.2 |
| Basic underlying earnings per share | 4.9 | (0.3) | 4.6 |
| Diluted earnings per share | 2.6 | (0.4) | 2.2 |
| Diluted underlying earnings per share | 4.9 | (0.4) | 4.5 |

**52 weeks ended 28 September 2019**

| Impact on the Group income statement | As originally stated £m | Adjustment £m | Restated amount £m |
|---|---|---|---|
| **Revenue** | 1,173.5 | - | 1,173.5 |
| Operating expenses | (1,067.0) | (0.1) | (1,067.1) |
| **Operating profit** | 106.5 | (0.1) | 106.4 |
| Net finance costs | (126.5) | - | (126.5) |
| **Loss before taxation** | (20.0) | (0.1) | (20.1) |
| Taxation | 2.0 | 0.4 | 2.4 |
| **Loss for the period attributable to equity shareholders** | (18.0) | 0.3 | (17.7) |

| Impact on the Group statement of comprehensive income | As originally stated £m | Adjustment £m | Restated amount £m |
|---|---|---|---|
| Loss for the period | (18.0) | 0.3 | (17.7) |
| Items of other comprehensive income that may subsequently be reclassified to profit or loss | (7.8) | - | (7.8) |
| Remeasurement of retirement benefits | (54.7) | - | (54.7) |
| Unrealised surplus on revaluation of properties | 2.8 | - | 2.8 |
| Reversal of past revaluation surplus | (27.4) | 2.3 | (25.1) |
| Tax on items that will not be reclassified to profit or loss | 11.1 | (0.5) | 10.6 |
| Items of other comprehensive income that will not be reclassified to profit or loss | (68.2) | 1.8 | (66.4) |
| Other comprehensive expense for the period | (76.0) | 1.8 | (74.2) |
| Total comprehensive expense for the period | (94.0) | 2.1 | (91.9) |

### 15 ASSET CLASS SPLIT (CONTINUED)

| Impact on the Group cash flow statement | As originally stated £m | Adjustment £m | Restated amount £m |
|---|---|---|---|
| **Operating activities** | | | |
| Underlying operating profit | 178.7 | (5.9) | 172.8 |
| Depreciation and amortisation | 43.2 | (1.0) | 42.2 |
| **Underlying EBITDA** | 221.9 | (6.9) | 215.0 |
| Non-underlying operating items | (72.2) | 5.8 | (66.4) |
| **EBITDA** | 149.7 | (1.1) | 148.6 |
| Working capital movement | 10.3 | - | 10.3 |
| Non-cash movements | 51.0 | 1.1 | 52.1 |
| Decrease in provisions and other non-current liabilities | (3.4) | - | (3.4) |
| Difference between defined benefit pension contributions paid and amounts charged | (3.0) | - | (3.0) |
| Income tax paid | (9.0) | - | (9.0) |
| **Net cash inflow from operating activities** | 195.6 | - | 195.6 |

| Impact on the Group balance sheet | As stated following correction of error £m | Adjustment £m | Restated amount £m |
|---|---|---|---|
| Property, plant and equipment | 2,350.4 | (44.3) | 2,306.1 |
| Deferred tax liabilities | (60.3) | 3.8 | (56.5) |
| Other assets and liabilities | (1,475.4) | - | (1,475.4) |
| **Net assets** | 814.7 | (40.5) | 774.2 |
| | | | |
| Revaluation reserve | 598.9 | (25.5) | 573.4 |
| Retained earnings | 40.5 | (15.0) | 25.5 |
| Other capital and reserves | 175.3 | - | 175.3 |
| **Total equity** | 814.7 | (40.5) | 774.2 |

| Impact on (loss)/earnings per share | As originally stated p | Adjustment p | Restated amount p |
|---|---|---|---|
| Basic loss per share | (2.8) | - | (2.8) |
| Basic underlying earnings per share | 13.5 | (0.8) | 12.7 |
| Diluted loss per share | (2.8) | - | (2.8) |
| Diluted underlying earnings per share | 13.4 | (0.9) | 12.5 |

**As at 29 September 2018**

| Impact on the Group balance sheet | As stated following correction of error £m | Adjustment £m | Restated amount £m |
|---|---|---|---|
| Property, plant and equipment | 2,408.1 | (46.5) | 2,361.6 |
| Deferred tax liabilities | (77.7) | 3.9 | (73.8) |
| Other assets and liabilities | (1,369.2) | - | (1,369.2) |
| **Net assets** | 961.2 | (42.6) | 918.6 |
| | | | |
| Revaluation reserve | 627.2 | (27.0) | 600.2 |
| Retained earnings | 151.2 | (15.6) | 135.6 |
| Other capital and reserves | 182.8 | - | 182.8 |
| **Total equity** | 961.2 | (42.6) | 918.6 |

### 16 ADOPTION OF IFRS 16 'LEASES'

The Group has adopted IFRS 16 'Leases' in the current period using the modified retrospective approach in paragraph C5(b) of the standard, whereby comparative amounts have not been restated and the cumulative effect of initially applying the standard has been recognised as an adjustment to opening retained earnings at 29 September 2019.

**Impact on accounting policies**
The new accounting policies adopted under IFRS 16 are detailed below:

At the inception of a contract the Group assesses whether that contract is or contains a lease. This is the case 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 taken the practical expedient in paragraph C3 of IFRS 16 not to reassess whether an existing contract is or contains a lease at the date of initial application and as such the IFRS 16 definition of a lease has only been applied to contracts which were entered into or amended on or after 29 September 2019.

The Group has elected not to apply the lessee requirements of IFRS 16 to short-term leases and leases for which the underlying asset is of low value. The lease payments for such leases are recognised as an expense on a straight-line basis over the lease term.

For all other leases where it is the lessee the Group recognises a lease liability and a right-of-use asset at the commencement date of the lease.

The lease liability is recognised as the present value of the lease payments discounted using either the interest rate implicit in the lease or, where that rate cannot be readily determined, the Group's incremental borrowing rate. The lease payments include variable payments that depend on an index or rate and the exercise price of a purchase option if it is reasonably certain that it will be exercised. The lease liability is subsequently increased to reflect the interest thereon, reduced by the lease payments made and remeasured to reflect any reassessments or lease modifications, such as a change in future lease payments resulting from a change in an index or rate or a change in the lease term.

The right-of-use asset is recognised at an amount equal to the total of the lease liability, any lease payments made at or before the commencement date, any initial direct costs and the estimated future dismantling, removal and site restoration costs. The Group has elected to apply the revaluation model to right-of-use assets relating to the effective freehold class of property, plant and equipment. All other right-of-use assets are held under the cost model and subsequently measured at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of the lease liability.

For assets where the Group is the lessor the accounting policies are equivalent to those under IAS 17 'Leases'. However, where the Group is an intermediate lessor of an asset, the sublease is now classified as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease rather than the underlying asset. Where a sublease is classified as a finance lease the right-of-use asset is derecognised and the Group recognises a finance lease receivable at an amount equal to the net investment in the lease. The lease payments are discounted at the interest rate implicit in the lease or, where this cannot be readily determined, the discount rate used for the head lease. Finance income is recognised over the lease term based on a pattern reflecting a constant periodic rate of return on the net investment in the lease.

**Impact on transition**
For leases previously classified as operating leases under IAS 17 the lease liability at 29 September 2019 has been recognised at the present value of the remaining lease payments discounted using the Group's incremental borrowing rate at 29 September 2019. The Group has applied the practical expedient in IFRS 16 to apply a single discount rate to a portfolio of leases with reasonably similar characteristics. The Group has taken the option to recognise all of the associated right-of-use assets at their carrying amounts had IFRS 16 always been applied, discounted using the Group's incremental borrowing rate at 29 September 2019, less any impairment required under IAS 36 'Impairment of Assets'.

For leases where the Group is the intermediate lessor the subleases have been reassessed at 29 September 2019 to determine whether the sublease should be classified as a finance lease or an operating lease based on the remaining contractual terms and conditions of the head lease and sublease at that date. Subleases that were classified as operating leases under IAS 17 but are required to be accounted for as finance leases under IFRS 16 have been treated as new finance leases entered into at 29 September 2019 and a finance lease receivable has been recognised instead of a right-of-use asset. The finance lease receivable has been recognised at the present value of the remaining lease payments discounted at the discount rate used for the head lease.

For leases previously classified as finance leases under IAS 17, the carrying amount of the lease liability and right-of-use asset at 29 September 2019 has been taken as the carrying amount of the IAS 17 lease liability and lease asset immediately before that date. These liabilities and assets have subsequently been accounted for by applying the requirements of IFRS 16.

The impact on the balance sheet upon transition to IFRS 16 at 29 September 2019 is as follows:

| | 29 September 2019 £m |
|---|---|
| Other intangible assets | (0.7) |
| Property, plant and equipment | 244.6 |
| Finance lease receivables | 20.2 |
| Lease liabilities | (295.3) |
| Property lease provisions | 14.6 |
| Trade and other receivables/payables | 0.7 |
| | (15.9) |
| Deferred tax | 3.0 |
| **Total adjustment to opening retained earnings** | (12.9) |

# NOTES

### 16 ADOPTION OF IFRS 16 'LEASES' (CONTINUED)

The weighted average incremental borrowing rate applied to the lease liabilities recognised in the balance sheet at 29 September 2019 was 5%.

| | 29 September 2019 £m |
|---|---|
| Operating lease commitments at 28 September 2019 as previously disclosed | 592.9 |
| Discounted using the incremental borrowing rate at 29 September 2019 | 297.4 |
| Commitments relating to short-term leases and leases of low-value assets | (2.1) |
| Lease liabilities recognised in the balance sheet at 29 September 2019 | 295.3 |

### 17 SEASONALITY OF INTERIM OPERATIONS

The Group's financial results and cash flows have, historically, been subject to seasonal trends between the first and second half of the financial year. Traditionally, the second half of the financial year sees higher revenue and profitability, as a result of better weather conditions.

There is no assurance that this trend will continue in the future.

### 18 EVENTS AFTER THE BALANCE SHEET DATE

On 22 May 2020, the Group announced that it had entered into an agreement to contribute its brewing business to a new UK brewing joint venture with Carlsberg in return for 40 per cent of the equity in the joint venture. Further details are provided in the Group Overview.

An interim dividend has not been proposed for the current period. An interim dividend of 2.7p per ordinary share was proposed and paid in respect of the prior period. The interim financial information for the prior period does not reflect this dividend payable.

### 19 PRINCIPAL RISKS AND UNCERTAINTIES

The Group set out on pages 31 to 34 of its 2019 Annual Report and Accounts the principal risks and uncertainties that could impact its performance. These risks and uncertainties were as follows:

*Market/operational*
There is the risk that the Group's pubs, brands or services fail to attract guests, do not reflect changing customer preferences or offer poor service or quality. Equally there is the risk that the Group's prices become uncompetitive.

*Business continuity*
There is the risk of disruption to key suppliers, particularly those closely involved with day-to-day activities (logistics, food, drink), or a shortage of commodities.

*Food safety*
Breaches of food standards regulations now attract increased media attention and higher penalties.

*Health and safety*
Breaches of health and safety or food hygiene regulations also now attract increased media attention and higher penalties.

*Information technology*
Threats to IT are both external and internal and could result in a network outage, denial of service or loss, theft or corruption of data.

*People*
There is the risk that the Group fails to attract or retain the best people.

*Financial*
There is the risk of a breach of the covenants with the Group's lenders, incorrect reporting of financial results and unauthorised transactions.

*Political*
The UK leaves the EU without a deal.

The UK left the EU on 31 January 2020 with a deal, however there is still significant uncertainty over the UK's future trading relationship with the EU, which could impact upon the Group's future performance. All of the other risks and uncertainties above are still present for the Group's underlying business and are expected to remain present for the second half of the financial year. However the most significant risk for the Group now arises from the spread of COVID-19 and the ability of the Group to continue to operate its business. Further detail regarding the impact of COVID-19 is provided in the Group Overview and the Performance and Financial Review.

### 20 INTERIM RESULTS

The interim results were approved by the Board on 26 June 2020.

### 21 COPIES

Copies of these results are available on the Marston's PLC website (www.marstons.co.uk) and on request from the Group Secretary, Marston's PLC, Marston's House, Brewery Road, Wolverhampton, WV1 4JT.