

Onerous lease provisions – Accounting treatment

General approach

- An onerous contract (as defined by IAS 37) is defined as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. In this case a provision should be recognised
- The onerous lease provision is booked in the period in which the contract is identified as onerous and is calculated as the NPV of all future cashflows. Consequently all future losses are booked against the provision. (In practice the provision is unwound to neutralise the future losses that have already been provided for)
- There are currently only 13 OL sites across Vue's estate: 8 in the United Kingdom, 4 in Italy and 1 in Germany

OL accounting treatment

Onerous lease (OL) provision movements in 2018		2018 Vue illustrative P&L	
	£m		£m
OL beginning balance (Nov-17)	33.7	Illustrative company EBITDA before OL/LC	112.0
Change in trading conditions	(6.4)	RealD	0.3
Impact of discount rate change	5.0	OL Utilisation	4.4
Loss making site illustrative EBITDA (utilisation)	(4.4)	Landlords Contribution	5.4
Interest unwinding	1.5	Company EBITDA	122.0
Foreign exchange movement	(0.6)	Onerous Lease Provision	1.4
		Other expenses	(82.0)
		Profit / (Loss) Before Interest & Tax	41.4
		Unwinding of discount factor on provisions	(1.5)
		Interest expense	(135.7)
OL closing balance (Nov-18)	28.9	Profit / (Loss) Before Tax	(95.8)

Landlord contribution provisions – Accounting treatment

General approach

- The receipt of incentives (a term used in accounting standards) are a standard recurring feature of any business with a large property portfolio when entering into or renewing a lease. They are commonly in the form of cash contributions from a landlord towards the tenant's leasehold improvement costs (LLC's)
- Accounting principles of IFRS require landlord contributions (LLC's) to be straight-lined over the life of the lease as a reduction to rental expense
- Where LLC's are not negotiated a reduction in rent can be expected instead which can give the same P&L effect as a straight-lined LLC without the upfront cash benefit

LLC accounting treatment

2018 Vue illustrative P&L	£m	2018 Vue P&L	£m
Landlord contributions beginning balance (Nov-17)	55.4	Illustrative company EBITDA before OL/LC	112.0
Landlord Contributions released	(5.4)	RealD	0.3
Landlord Contributions received (cash)	4.8	OL Utilisation	4.4
Exchange Rate impact	(0.2)	Landlords Contribution	5.4
Landlord contributions closing balance (Nov-18)	54.6	Consolidated EBITDA	122.0
		Onerous Lease Provision	1.4
		Other expenses	(82.0)
		Profit / (Loss) Before Interest & Tax	41.4
		Unwinding of discount factor on provisions	(1.5)
		Interest expense	(135.7)
		Profit / (Loss) Before Tax	(95.8)