

# **Mitchells & Butlers Leisure Retail Limited**

Annual Report and Financial Statements

for the 52 weeks ended 26 September 2020



# **Mitchells & Butlers Leisure Retail Limited**

## **Strategic Report for the 52 weeks ended 26 September 2020**

Mitchells & Butlers Leisure Retail Limited ("the Company") is a private company limited by shares and is a subsidiary company of Mitchells & Butlers plc. Mitchells & Butlers plc, along with its subsidiaries, form the Mitchells and Butlers group of companies ("the Group"). The address of the Company's registered office is shown in note 20.

The Directors present their Strategic Report for the 52 weeks ended 26 September 2020. The comparative period is for the 52 weeks ended 28 September 2019.

### **Business Model**

#### **Fair review of the business**

The principal activity of the Company is the provision of management services and the supply of drink, food and pub consumables to other companies within the Group. The Company operates within the UK but procures goods both locally and internationally and delivers benefit to the Group through scale purchasing power.

Revenue for the period was £594,189,000 (2019 £886,032,000) with loss for the period before taxation of £27,750,000 (2019 £33,190,000). Taxation credited against the loss for the period was £6,792,000 (2019 £290,000) leaving a loss after tax of £20,958,000 (2019 £32,900,000). The net liability position as at the period end was £167,743,000 (2019 £145,594,000).

This financial period has been dominated by the impact that Covid-19 has had on the Company, the Mitchells and Butlers Group and the wider industry. Before Covid-19 the Group had enjoyed a strong start to FY 2020 and we continued to see the beneficial impact of our Ignite programme of work coming through in results.

As the Covid-19 pandemic began to spread across the country, the business remained quite resilient, but when full lockdown was announced on 20 March we closed the all trading sites within the Group immediately, with our priority being to protect both our guests and team members. A number of measures were taken at the outset of the crisis to protect the business including:

- putting the majority of our employees on furlough; and
- quickly reducing operating costs to the minimum required to keep the estate safe and secure.

As a result of the reduced profitability of the Group, the Company has received a lower level of management service income from other group companies.

#### **Intra Group Supply Agreement**

On 13 November 2003, the Group refinanced its debt through a securitisation of its UK pubs and restaurants owned by Mitchells & Butlers Retail Limited. In connection with this transaction, on 6 November 2003 central management and administration personnel were transferred from Mitchells & Butlers Retail Limited to the Company. Under an Intra Group Supply Agreement dated 6 November 2003, the Company has, since this date, procured the supply and distribution of the majority of goods, including food, beer, spirits and other drinks for the Group. Under a Management Service Agreement dated 6 November 2003, the Company has also, since this date, provided the Group with central management and administration services. The Company receives a fee for the management and administration services provided.

#### **Key Performance Indicators**

The Company is a management service company of the Group and the performance of the Company is monitored as part of the wider Group. The Group's key performance indicators are discussed in the Annual Report and Accounts 2020 of Mitchells & Butlers plc. The principal Group key performance indicator of relevance to the Company is adjusted operating profit.

#### **Principal risks and uncertainties**

The Company's Directors consider the risks for the Company to be largely the same as the risks of the Group that are discussed in the Annual Report and Accounts 2020 of Mitchells & Butlers plc. These include, but are not restricted to the following:

##### **• Operational risks**

#### **People, planning and development**

The Group has a strong guest focus, and as such it is important that it is able to attract, retain, develop and motivate the best people with the right capabilities. There is a risk that without the right people our customer service levels would be affected.

The Group 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.

# **Mitchells & Butlers Leisure Retail Limited**

## **Strategic Report for the 52 weeks ended 26 September 2020 (continued)**

### **Principal risks and uncertainties (continued)**

- **Operational risks (continued)**

#### ***People, planning and development (continued)***

The apprenticeship programme will assist in developing future talent and a new talent management system has been sourced to further assist with talent planning and retention of employees.

#### ***Business continuity and crisis management***

The Group 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 disease pandemic might restrict sales or reduce operational effectiveness.

#### ***Business continuity and crisis management (continued)***

The Group has in place crisis and continuity plans that are tested and refreshed regularly. The Group'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 for them to be able to work remotely and in an efficient manner.

#### ***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. In addition, there are also increasing risks of cyber-attacks and non-compliance with GDPR.

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 order to mitigate these risks, the Group has a number of controls in place including; a cross-functional Information Security Steering Group; Group Assurance IT controls reviews; regular revision of appropriate cyber security governance policies and procedures; and systems controls to ensure GDPR compliance.

#### ***Brexit***

With c30% of food spend sourced from EU countries, the overall risk and impact of higher food costs will increase. In addition, there is an increasing risk to the sourcing of certain products given the expected delays at ports following the end of the transition period following the UK leaving the EU. At the end of that transition period by the UK from the EU, the cost of goods may be impacted by changes in terms of trade and tariffs, additional border controls and fluctuations in the value of sterling.

Brexit risks have been considered in detail during FY 2020 and mitigating plans continue to be reviewed and developed, such as buying ahead to mitigate the risk of a lack of availability of products upon the end of the transition period for the UK's departure from the EU.

#### ***Food Supply Chain Safety***

As the Company procures food and drink for onward distribution to other group companies, food safety risks apply to this Company.

Malicious or accidental contamination in the supply chain can lead to food goods being unfit for human consumption or potentially dangerous to consume. This leads to restrictions in supply which in turn causes an increase in cost of goods and reduced sales due to consumer fears and physical harm to customers or employees.

The Group uses a number of technical partners to help prevent contamination. All food products are risk rated using standard industry definitions and take account of the way products are used within our kitchens. Suppliers are also risk rated according to their products, with each food supplier being audited once per annum in respect of safety and additionally in response to a serious food safety complaint or incident.

In addition, allergens are becoming an increased risk within the industry. As such, 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 to maintain guest safety.

# **Mitchells & Butlers Leisure Retail Limited**

## **Strategic Report for the 52 weeks ended 26 September 2020 (continued)**

### **Confirmation of Directors' duties**

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 interest of the Company's employees;
- The need to foster the Company's business relationships with suppliers, customers and other;
- The impact of the Company's operations on the community and environment;
- The desirability for high standard of business conduct; and
- The need to act fairly as between members of the Company.

The Board has a duty under s. 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 shareholder, those employees of the Company or other parts 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), those customers of the goods and services provided by the Company, suppliers to the Company, governmental authorities such as HMRC and regulatory bodies, real estate property counter-parties (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 firstly 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 Company's business and its employees and suppliers, of the closure of its key customers' trading sites due to the Covid-19 pandemic, and the subsequent re-opening 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.

The Board also remained cognisant of the fact that there was likely to be an expectation amongst those stakeholders that the Company's decisions would be, where appropriate, consistent with the wider strategic direction of the Mitchells & Butlers group as set out by its ultimate parent company, Mitchells & Butlers plc. However, in reaching its decisions, the Board of the Company regarded this as only one of the relevant factors.

The Board had the benefit of a specific briefing from its external legal advisers on the duties and responsibilities of the directors in 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.

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 furloughing of staff, accessing Government support and amendments to trading arrangements with external suppliers and internal counter-parties.

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 customers 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.

# **Mitchells & Butlers Leisure Retail Limited**

## **Strategic Report for the 52 weeks ended 26 September 2020 (continued)**

### **Confirmation of Directors' duties (continued)**

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 s. 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. These goals, which in effect constitute the Company's principal activities as described in the business model on page 1, remain the agreed purpose of the Company as confirmed by the Board.

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 the Mitchells & Butlers Annual Report and Accounts 2020

### **Future Developments**

The Company will continue as a management service company of the Group.

Approved by the Board on 8 December 2020 and signed on its behalf by:



G J McMahon  
Director

# **Mitchells & Butlers Leisure Retail Limited**

## **Directors' Report for the 52 weeks ended 26 September 2020**

The Directors present their report on the affairs of the Company, together with the financial statements and independent auditor's report, for the 52 weeks ended 26 September 2020. The comparative period is for the 52 weeks ended 28 September 2019.

Details of future developments can be found in the Strategic Report on page 4.

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 in line with those of the wider Mitchells and Butlers Group. Details of these processes are set out in the Annual Report and Accounts 2020 of Mitchells and Butlers plc in the section discussing the Company's business model on pages 3 to 4.

### **Dividends**

No dividends were declared or paid during the period (2019 £nil). The Directors are proposing a final dividend of £nil (2019 £nil).

### **Financial risk management**

The financial risk management objectives and policies of the Company are monitored as part of the wider Group. Specific risks relevant to the Company are discussed in the Strategic report. Details of the risks and exposure of the Group to financial risks including; credit risk liquidity risk and market risk are provided in the Mitchells & Butlers plc Annual Report and Accounts 2020.

### **Going Concern**

The financial statements have been prepared on a going concern basis. A full assessment of the going concern statement has been provided in note 1. As described in the note 1, a material uncertainty exists, which may cast significant doubt over the Company'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. However, 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 these financial statements. Accordingly, the financial statements continue to be prepared on the going concern basis.

In addition, the Directors of Mitchells & Butlers plc, the ultimate parent undertaking, have stated that they will continue to make funds available to the Company to enable it to meet its debts as they fall due for the foreseeable future, being a period of at least twelve months from the date of approval of the balance sheet.

### **Directors of the Company**

The Directors who held office during the period and up to the date of this report were as follows:

S K Martindale  
L J Miles  
A W Vaughan  
G J McMahon  
C Hopkins

### **Directors' indemnity**

Throughout the period to which these financial statements refer, the Directors had the benefit of a Directors' and officers' liability insurance policy, the premium for which was paid by the Company's ultimate parent company, Mitchells & Butlers plc.

### **Employment policies**

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 Company is responsive to the needs of its employees. As such, should any employee of the Company 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 Mitchells and Butlers Group of companies. It is the policy of the Company that the recruitment, training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

# **Mitchells & Butlers Leisure Retail Limited**

## **Directors' Report for the 52 weeks ended 26 September 2020 (continued)**

### **Employee engagement**

The Company engages with its employees in a number of ways including;

- a dedicated intranet for Retail Support team;
- line manager briefings;
- employee social media groups; and
- communications forums held by functions.

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.

We provide opportunities for employees to give their feedback to the Company in a number of ways, including engagement surveys for all employees and 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 on the intranet.

Employees can participate in the success of the business through employee share schemes.

Employee engagement was also particularly important in the current period, as a result of the Covid-19 pandemic. Following the instruction of the UK Government on 20 March that the Mitchells and Butlers Group's trading sites should close with immediate effect, they 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.

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. 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.

### **Disclosure of information to the auditor**

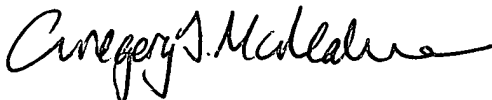
The Directors who held office as at the date of approval of this Directors' report confirm that so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and that each Director has taken all the steps that they ought to have taken as a Director to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of s418 of the Companies Act 2006.

### **Reappointment of auditor**

In accordance with section 485 of the Companies Act 2006, a resolution for the re-appointment of Deloitte LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board on 8 December 2020 and signed on its behalf by:



G J McMahon  
Director

# **Mitchells & Butlers Leisure Retail Limited**

## **Directors' Responsibilities Statement**

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 financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 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 these 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 applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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.



# **Independent Auditor's Report to the members of Mitchells & Butlers Leisure Retail**

## **Report on the audit of the financial statements**

### **Opinion**

In our opinion the financial statements of Mitchells & Butlers Leisure Retail Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 26 September 2020 and of its loss for the 52 weeks then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income Statement;
- the Balance sheet;
- the Statement of Changes in Equity; and
- the related notes 1 to 20.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

### **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 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') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Material uncertainty related to going concern**

We draw attention to note 1 in the financial statements, which indicates that a material uncertainty exists on the Company's future trading, which could result in the Company being unable to realise its assets and discharge its liabilities. As stated in note 1, these events or conditions, along with the other matters as set forth in note 1 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### **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.

We have nothing to report in respect of these matters.

### **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 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 Company or to cease operations, or have no realistic alternative but to do so.

**Independent Auditor's Report to the members of Mitchells & Butlers Leisure Retail  
(continued)**

**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.

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Report on other legal and regulatory requirements**

**Opinions on other matters prescribed by 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 Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors' report.

**Matters on which we are required to report by exception**

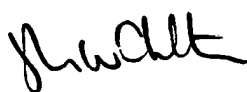
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

**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  
8 December 2020

**Mitchells & Butlers Leisure Retail Limited**  
**Income statement for the 52 weeks ended 26 September 2020**

		52 weeks ended 26 September 2020 £000	52 weeks ended 28 September 2019 £000
	Note		
Revenue	2	594,189	886,032
Other income	2	9,332	-
Operating costs	3	(631,117)	(920,359)
Separately disclosed items	4	(807)	-
<b>OPERATING LOSS</b>		<b>(28,403)</b>	<b>(34,327)</b>
Finance income	6	720	1,142
Finance costs	7	(67)	(5)
<b>LOSS BEFORE TAXATION</b>		<b>(27,750)</b>	<b>(33,190)</b>
Tax credit	8	6,792	290
<b>LOSS FOR THE PERIOD</b>		<b>(20,958)</b>	<b>(32,900)</b>

The above results are derived from continuing operations.

The Company has no comprehensive income or expense other than the loss stated above (2019 £nil).

# Mitchells & Butlers Leisure Retail Limited

Registration number: 1001181

## Balance Sheet as at 26 September 2020

		26 September 2020	28 September 2019 (restated*)
	Note	£000	£000
<b>NON-CURRENT ASSETS</b>			
Intangible assets	9	12,027	10,827
Property, plant and equipment	10	2,927	4,139
Trade and other receivables <sup>a</sup>	13	21,346	21,346
Right of use assets <sup>a</sup>	15	3,177	-
Deferred tax asset	16	8,308	2,707
<b>TOTAL NON-CURRENT ASSETS</b>		<b>47,785</b>	<b>39,019</b>
<b>CURRENT ASSETS</b>			
Inventories	12	-	1
Trade and other receivables <sup>a</sup>	13	68,004	60,094
Cash and cash equivalents		163	706
<b>TOTAL CURRENT ASSETS</b>		<b>68,167</b>	<b>60,801</b>
<b>TOTAL ASSETS</b>		<b>115,952</b>	<b>99,820</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	14	(281,436)	(245,414)
Lease liabilities <sup>a</sup>	15	(863)	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>(282,299)</b>	<b>(245,414)</b>
<b>NET CURRENT LIABILITIES</b>		<b>(214,132)</b>	<b>(184,613)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>(166,347)</b>	<b>(145,594)</b>
<b>NON-CURRENT LIABILITIES</b>			
Lease liabilities <sup>a</sup>	15	(1,396)	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>(1,396)</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>(283,695)</b>	<b>(245,414)</b>
<b>NET LIABILITIES</b>		<b>(167,743)</b>	<b>(145,594)</b>
<b>EQUITY</b>			
Share capital	17	-	-
Retained losses		(167,743)	(145,594)
<b>TOTAL EQUITY</b>		<b>(167,743)</b>	<b>(145,594)</b>

\*Amounts owed by subsidiary undertakings have been reclassified from current to non-current assets. See note 1.

- a. During the period, the Company has adopted IFRS 16 which requires lease liabilities and corresponding right-of-use assets to be recognised on the balance sheet. The Company has adopted IFRS 16 using the modified retrospective approach and as a result, prior period comparatives have not been restated. See notes 1 and 18 for details of the transitional impact.

Approved by the Board and authorised for issue on 8 December 2020. They were signed on its behalf by:



G J McMahon  
Director

The notes on pages 13 to 29 form an integral part of these financial statements.

**Mitchells & Butlers Leisure Retail Limited**  
**Statement of Changes in Equity**  
**for the 52 weeks ended 26 September 2020**

	Share capital £000	Retained losses £000	Total £000
<b>At 29 September 2018</b>	-	<b>(113,458)</b>	<b>(113,458)</b>
Loss for the period	-	(32,900)	(32,900)
Total comprehensive expense	-	(32,900)	(32,900)
Tax on share-based payments	-	764	764
<b>At 28 September 2019</b>	-	<b>(145,594)</b>	<b>(145,594)</b>
Loss for the period	-	(20,958)	(20,958)
Total comprehensive expense	-	(20,958)	(20,958)
Tax on share-based payments	-	(1,191)	(1,191)
<b>At 26 September 2020</b>	-	<b>(167,743)</b>	<b>(167,743)</b>

The notes on pages 13 to 29 form an integral part of these financial statements.

# Mitchells & Butlers Leisure Retail Limited

## Notes to the Financial Statements for the 52 weeks ended 26 September 2020 (continued)

### 1. Accounting policies

#### Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The nature of the Company's operations and its principal activities are set out in the Strategic Report.

#### Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to IFRS 2 share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, IAS 36 Impairment of Assets and IAS 24 Related Party Disclosures. Where relevant, equivalent disclosures have been given in the Annual Report and Accounts 2020 of Mitchells & Butlers plc.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

The Company's ultimate parent undertaking, Mitchells & Butlers plc includes the Company in its consolidated financial statements. The consolidated financial statements of Mitchells & Butlers plc are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public and may be obtained from the Company Secretary, Mitchells & Butlers plc, 27 Fleet Street, Birmingham B3 1JP.

#### Accounting reference date

The Company's accounting reference date is 30 September. The Company draws up its 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.

#### Going concern

The financial statements have been prepared on a going concern basis. The Directors of Mitchells & Butlers plc, the ultimate parent undertaking have stated that they will continue to make funds available to the Company to enable it to meet its debts as they fall due for the foreseeable future, being a period of at least twelve months from the date of approval of the balance sheet.

The Company has a liability of £131,485,000 to Mitchells & Butlers plc, the ultimate parent company, which is repayable on demand, however is not expected to be called for repayment within the next twelve months.

The Company forms part of the Mitchells & Butlers Group, which is funded by both secured and unsecured financing, with the securitised estate governed by a number of covenants, warranties and events of default. This Company is part of the unsecured estate. As described in the Mitchells & Butlers plc Annual Report and Accounts 2020, the Covid-19 pandemic, has resulted in a material uncertainty which may cast significant doubt over Mitchells & Butlers plc Group's ability, and therefore the Company'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 covenant compliance. 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. Copies of the Mitchells & Butlers plc Annual Report and Accounts 2020 are available from the registered office at 27 Fleet Street, Birmingham, B3 1JP or via the website [www.mbplc.com](http://www.mbplc.com).

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

Under the base case forecast, the Group continues to remain profitable with no forecasted covenant breach, with the securitised 4 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.

# Mitchells & Butlers Leisure Retail Limited

## Notes to the Financial Statements for the 52 weeks ended 26 September 2020 (continued)

### 1. Accounting policies (continued)

#### Going concern (continued)

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 these financial statements. Accordingly, the financial statements continue to be prepared on the going concern basis.

#### Critical accounting judgements and key sources of estimation uncertainty

The preparation of the 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.

The critical judgements and key sources of estimation uncertainty in the current period are in relation to deferred tax asset recognition and are described in note 16. There were no critical judgements or key sources of estimation uncertainty in the prior period.

#### Restatement

During the current period, amounts owed by subsidiary undertakings have been reclassified from current assets to non-current assets. The 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.

#### Adoption of new and revised Standards

The Company has initially adopted IFRS 16 Leases from 29 September 2019. A number of other new standards were effective from 29 September 2019 but they do not have a material impact on the Company's accounts.

#### IFRS 16 Leases

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

Given the number of leases and historical data requirements to adopt the full retrospective approach, the Company has applied the modified retrospective approach with assets equal to liabilities, at transition. As a result, there is no requirement to restate prior period information.

The date of initial application of IFRS 16 for the Company is 29 September 2019. The impact of the adoption of IFRS 16 on the balance sheet and the income statement is shown in note 18.

#### The Company as lessee

The Company has applied the practical expedient available on transition to IFRS 16, not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered into or modified before 29 September 2019. The Company now assesses whether a contract is or contains a lease based on the new definition of a lease 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 Company has also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of twelve months or less and do not contain a purchase option, and lease contracts for which the underlying asset is of low value.

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

# Mitchells & Butlers Leisure Retail Limited

## Notes to the Financial Statements for the 52 weeks ended 26 September 2020 (continued)

### 1. Accounting policies (continued)

#### Adoption of new and revised Standards (continued)

##### *IFRS 16 Leases (continued)*

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 Company's assessment of whether it is reasonably certain to exercise or not exercise a break option.

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

Under IFRS 16, there is a lease-by-lease transition choice whereby a lessee can take a practical expedient to rely on assessments immediately before the date of initial application of whether leases are onerous under the IAS 37 Provisions, Contingent Liabilities and Contingent Assets definition and to adjust the right-of-use asset by this amount. Alternatively, the new requirements under IFRS 16 can be applied and the right-of-use asset is tested for impairment in accordance with IAS 36 Impairment of Assets at the transition date. The Company has considered this on a lease by lease basis with a transitional impairment review taken on a number of leases. The transitional impairment review has not resulted in any impairment charge.

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

At the commencement date of car leases the Company determines the lease term to be the full term of the lease, assuming any option to break or extend the lease is unlikely to be exercised.

##### *The Company as lessor*

There has been no impact on the financial statements for the adoption of IFRS 16 on lessor accounting.

#### **Revenue**

Revenue includes;

- intercompany sales (excluding VAT) of goods and services which are recognised at the point of sale;
- management and administrative services provided in the normal course of business to other Group companies, which are recognised on an accruals basis as the service is provided; and
- income derived from Mitchells & Butlers leased operations is variable on the performance of the leased operation. This income is recognised as it is earned.

#### **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, grant income received is shown within other income. The scheme commenced on 20 March 2020 and will continue until 31 March 2021.

#### **Finance costs**

Finance costs are allocated over the term of the debt using the 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 net carrying amount on initial recognition.



# Mitchells & Butlers Leisure Retail Limited

## Notes to the Financial Statements for the 52 weeks ended 26 September 2020 (continued)

### 1. Accounting policies (continued)

#### **Finance income**

Finance income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Finance income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

#### **Property, plant and equipment**

Fixtures, fittings and equipment are held at cost less depreciation and impairment.

#### **Assets under construction**

Assets under construction are held at cost.

#### **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 lives of items of fixtures, fittings and equipment and is commenced when an asset is ready for its intended use.

Fixtures, fittings and equipment have the following estimated useful lives:

Information technology equipment 3 to 7 years

Fixtures and fittings 3 to 20 years

Expected useful lives and residual values are reviewed each year and adjusted if appropriate.

#### **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.

#### **Impairment**

Fixtures and fittings are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable.

#### **Intangible assets - 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 and is commenced when an asset is ready for its intended use.

#### **Assets under construction**

Assets under construction are held at cost.

#### **Impairment**

Computer software is reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable.

#### **Trade receivables**

Trade receivables and other receivables are recorded initially at transaction price and subsequently 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 Company always measures the loss allowance for trade receivables at an amount equal to lifetime ECL.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value.

#### **Trade payables**

Trade and other payables are initially recognised at fair value and subsequently recognised at amortised cost.

# Mitchells & Butlers Leisure Retail Limited

## Notes to the Financial Statements for the 52 weeks ended 26 September 2020 (continued)

### 1. Accounting policies (continued)

#### Leases

##### Company as lessee

The Company 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 Company 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 Company 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 Company 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 Company 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. 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 Company 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.

# Mitchells & Butlers Leisure Retail Limited

## Notes to the Financial Statements for the 52 weeks ended 26 September 2020 (continued)

### 1. Accounting policies (continued)

#### Taxation

The income tax expense represents both the income tax payable, based on profits or 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 charged or credited directly to equity, in which case the income tax is also charged or credited to 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 Company 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.

#### Group tax relief

It is the policy of Mitchells & Butlers plc Group for no payment to be made for group tax relief received.

#### Pensions

The Company's profit and loss account charge in respect of its defined contribution arrangements is equal to the contributions payable for the period.

Mitchells & Butlers plc, the sponsoring employer, accounts for pensions in accordance with IAS 19 Employee Benefits. Since there is no contractual agreement or policy in place to allocate the defined benefit plan across the subsidiaries that each employ members of these plans, which include the Company, the net defined benefit cost is recognised by Mitchells & Butlers plc.

The total liability in the Mitchells & Butlers plc pension plans, as measured on an IAS 19 basis, is recorded in the financial statements of Mitchells & Butlers plc, the sponsoring employer of the Mitchells & Butlers pension plans.

Mitchells & Butlers plc charges the Company for its share of the cash contributions made to the defined benefit pension plans.

#### Share based payments

Share options and share awards are granted to employees of the Company by Mitchells & Butlers plc. Mitchells & Butlers plc accounts for share options and share awards in accordance with IFRS 2 Share-based Payment. 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 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 Company. Fair values are calculated using either the Black-Scholes, Binomial or Monte Carlo simulation models depending upon the conditions attached to the particular share scheme.

The Company's income statement charge in respect of share-based payments represents an allocation of the overall charge incurred by Mitchells & Butlers plc Group.

# Mitchells & Butlers Leisure Retail Limited

## Notes to the Financial Statements for the 52 weeks ended 26 September 2020 (continued)

### 2. Revenue and other income

#### Revenue

Revenue is analysed as follows:

	52 weeks ended 26 September 2020 £000	52 weeks ended 28 September 2019 £000
Goods and services sold to other group companies	508,799	779,575
Management and administrative services fee charged to other group companies	85,253	106,145
Other intercompany revenue	116	96
Mitchells & Butlers leased revenue	21	55
Other revenue	-	161
	<u>594,189</u>	<u>886,032</u>

All of the Company's business is performed in the United Kingdom.

#### Other income

Other income is analysed as follows:

	52 weeks ended 26 September 2020 £000	52 weeks ended 28 September 2019 £000
Government grant	9,332	-
Total other income	<u>9,332</u>	<u>-</u>

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.

### 3. Operating costs

	Note	52 weeks ended 26 September 2020 £000	52 weeks ended 28 September 2019 £000
Operating costs are analysed as follows:			
Raw materials and consumables recognised as an expense		510,041	779,612
Changes in inventories of finished goods	12	1	-
Employee costs	5	60,872	69,652
Hire of plant & machinery <sup>a</sup>		459	2,133
Other costs		39,313	36,605
Recharge from Mitchells & Butlers plc in respect of additional contributions to the defined benefit pension plans		15,524	30,142
Depreciation of property, plant and equipment	10	592	327
Depreciation of right-of-use assets	15	1,577	-
Amortisation expense	9	2,738	1,888
Total operating costs		<u>631,117</u>	<u>920,359</u>

- a. Following the implementation of IFRS 16 in the current period, fixed rental costs associated with motor vehicle leases are no longer recognised as operating costs but are instead charged as a depreciation and interest expense (see notes 1 and 18). The remaining costs included for the 52 weeks ended 26 September 2020 are variable lease payments, rental costs for short term leases and service charges.

Audit fees paid to Deloitte LLP by the Company on behalf of all group companies were £525,000 (2019 £415,000). Included in this total was £12,500 (2019 £12,500) for the audit of the Company's accounts.

Fees paid to Deloitte LLP for non-audit services were £11,000 (2019 £66,000). These are borne by the Company on behalf of all group companies.

# Mitchells & Butlers Leisure Retail Limited

## Notes to the Financial Statements for the 52 weeks ended 26 September 2020 (continued)

### 4. Separately disclosed items

#### Critical accounting judgements

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

Separately disclosed items are identified as follows:

- Costs directly associated with the 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.

The items identified are as follows:

	Note	52 weeks ended 26 September 2020 £m	52 weeks ended 28 September 2019 £m
Costs directly associated with Covid-19 and the enforced closure of pubs	a	807	-
Total separately disclosed items recognised within operating costs		807	-
Total separately disclosed items		807	-

- a. Costs directly associated with the Covid-19 pandemic primarily relate to the disposal of stock items within distribution depots, that had not been sold onto other group companies through the Intra Group Supply agreement (see note 1), and that were beyond useable dates as a result of the UK Government enforced closure of pubs on 20 March 2020. This excessive wastage is not considered to be part of normal trading activity.

### 5. Employee costs

	52 weeks ended 26 September 2020 £000	52 weeks ended 28 September 2019 £000
Wages and salaries	51,806	56,934
Social security costs	6,094	8,136
Pension costs, defined contribution scheme	2,805	2,792
Share-based payments <sup>a</sup>	167	1,790
Employee costs before Government grants <sup>b</sup>	60,872	69,652

- a. Full disclosure of the share schemes in operation during the period, and their valuations, are provided in the Mitchells & Butlers plc Annual Report and Accounts 2020.
- b. A 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 amount is reported within other income. See note 2 for further details.

#### Average number of employees

The 4-weekly average number of persons employed by the Company during the period, including part time employees, was 1,025 (2019 993). All employees are support employees.

# Mitchells & Butlers Leisure Retail Limited

## Notes to the Financial Statements for the 52 weeks ended 26 September 2020 (continued)

### 5. Employee costs (continued)

#### Directors' remuneration

The five Directors (2019 five) who served during the period were all employed by the Company and are also Directors of other subsidiary companies of Mitchells & Butlers plc Group. The Directors received total remuneration of £1.1m (2019 £2.0m) in respect of their services to Mitchells & Butlers plc Group, but it is not practical to allocate this between each of the subsidiary companies for which they act as a Director. At the period end five (2019 five) of the Directors were members of Mitchells & Butlers plc Group's defined contribution scheme, with one (2019 one) Director also holding accrued service within Mitchells & Butlers plc Group's defined benefit scheme. During the period, four (2019 four) of the Directors were granted share options in the 'PRSP' (Performance Restricted Share Plan) scheme. Details of this scheme are disclosed in the Mitchells & Butlers plc Annual Report and Accounts 2020.

The highest paid Director received emoluments of £0.3m (2019 £0.6m), with Company contributions to defined contribution pension schemes of £nil (2019 £nil). This director was also granted share options in the PRSP scheme during the year.

#### Pensions

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.

In addition, Mitchells & Butlers plc also provides a workplace pension plan in line with the Workplace Pensions Reform Regulations. This automatically enrolls all eligible workers into a Qualifying Workplace Pension Plan.

#### Defined contribution scheme

The Company's profit and loss account charge in respect of its defined contribution arrangements is equal to the contributions payable for the period.

In the 52 weeks ended 26 September 2020, Mitchells & Butlers plc Group paid £13,000,000 (2019 £11,000,000) in respect of the defined contribution arrangements. The pension charge in respect of the defined contribution arrangements included in the profit and loss account of the Company for the 52 weeks ended 26 September 2020 was £2,805,000 (2019 £2,792,000).

#### Defined benefit scheme

Mitchells & Butlers plc, the sponsoring employer, accounts for pensions in accordance with IAS 19 Employee Benefits. Since there is no contractual agreement or policy in place to allocate the defined benefit plan across the subsidiaries that each employ members of these plans, which include the Company, the net defined benefit cost is recognised by Mitchells & Butlers plc.

The total liability in the Mitchells & Butlers plc pension plans, as measured on an IAS 19 basis, is recorded in the financial statements of Mitchells & Butlers plc, the sponsoring employer of the Mitchells & Butlers pension plans.

Details of the defined benefit scheme recorded in Mitchells & Butlers plc are provided below.

The defined benefit section of the plan is now closed to future service accrual. At the same time Mitchells & Butlers plc implemented a revised defined contribution benefit structure. The defined benefit liability relates to the MABPP and MABEPP 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.

#### Measurement of assets and liabilities

Mitchells & Butlers plc has accounted for pensions in accordance with IAS 19 Employee Benefits (revised). The valuations used by Mitchells & Butlers plc 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' qualified actuaries to 26 September 2020. Scheme 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. Full disclosure of assumptions and the valuation is provided in the Mitchells & Butlers plc Annual Report and Accounts 2020.

# Mitchells & Butlers Leisure Retail Limited

## Notes to the Financial Statements for the 52 weeks ended 26 September 2020 (continued)

### 5. Employee costs (continued)

#### Defined benefit scheme (continued)

##### 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, Mitchells & Butlers plc 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, Mitchells & Butlers plc 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 in 2023.

Under IFRIC 14, an additional liability is recognised such that the overall pension liability at the period end reflects the schedule of contributions in relation to a minimum funding requirement, should this be higher than the actuarial deficit. The Group IAS 19 (revised) deficit calculated on this basis, and recognised in the Mitchells & Butlers plc Annual Report and Accounts 2020, is £193m (2019 £215m).

In 2024, an additional payment of £13m will be made into escrow by the Group, should such further funding be required at that time. This is a contingent liability and is not reflected in the pensions liability in the parent company financial statements as it is not committed.

### 6. Finance income

	52 weeks ended 26 September 2020 £000	52 weeks ended 28 September 2019 £000
Finance income intercompany	<u>720</u>	<u>1,142</u>

### 7. Finance costs

	52 weeks ended 26 September 2020 £000	52 weeks ended 28 September 2019 £000
Intercompany interest	4	5
Interest on lease liabilities	57	-
Finance costs external	<u>6</u>	<u>-</u>
	<u>67</u>	<u>5</u>

# Mitchells & Butlers Leisure Retail Limited

## Notes to the Financial Statements for the 52 weeks ended 26 September 2020 (continued)

### 8. Taxation

	52 weeks ended 26 September 2020 £000	52 weeks ended 28 September 2019 £000
<b>Taxation – income statement</b>		
<b>Current taxation</b>		
UK corporation tax	-	5,867
Group relief surrendered for nil payment	-	(5,867)
	-	-
<b>Deferred taxation</b>		
Origination and reversal of temporary differences	6,676	277
Effect of change in UK tax rate	115	-
Adjustments in respect of prior periods	1	13
	<u>6,792</u>	<u>290</u>

The standard rate of corporation tax applied to the reported profit is 19.0% (2019 19.0%).

The tax in the income statement for the period is a higher credit (2019 a lower credit) than the standard rate of corporation tax in the UK.

The differences are reconciled below:

	52 weeks ended 26 September 2020 £000	52 weeks ended 28 September 2019 £000
Loss before tax	<u>(27,750)</u>	<u>(33,190)</u>
Taxation credited at the UK standard rate of corporation tax of 19.0% (2019 19.0%)	5,272	6,306
Expenses not deductible	(11)	(129)
Income not taxable	121	-
UK-UK transfer pricing -imputed interest expense	1,294	-
Group relief surrendered	-	(5,867)
Adjustments in respect of prior periods	1	13
Tax credit/(charge) in respect of change in UK tax rate	115	-
Effect of different tax rates for deferred tax and corporation tax	-	(33)
Total tax credit	<u>6,792</u>	<u>290</u>
 Further analysed as tax relating to:		
Loss before tax and separately disclosed items	6,524	290
Separately disclosed items	<u>268</u>	<u>-</u>
	<u>6,792</u>	<u>290</u>

#### 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.



# Mitchells & Butlers Leisure Retail Limited

## Notes to the Financial Statements for the 52 weeks ended 26 September 2020 (continued)

### 9. Intangible assets

	Software costs £000	Assets under construction £000	Total £000
<b>Cost</b>			
At 28 September 2019	9,384	3,926	13,310
Additions	4,184	3,938	8,122
Disposals	(85)	-	(85)
Transfers to other companies <sup>a</sup>	-	(4,184)	(4,184)
<b>At 26 September 2020</b>	<b>13,483</b>	<b>3,680</b>	<b>17,163</b>
<b>Amortisation</b>			
At 28 September 2019	2,483	-	2,483
Amortisation charge	2,738	-	2,738
Disposals	(85)	-	(85)
<b>At 26 September 2020</b>	<b>5,136</b>	<b>-</b>	<b>5,136</b>
<b>Carrying amount</b>			
<b>At 26 September 2020</b>	<b>8,347</b>	<b>3,680</b>	<b>12,027</b>
At 28 September 2019	6,901	3,926	10,827

a. The majority of assets in the course of construction are held on behalf of other Group companies. The assets are transferred to other Group companies upon completion.

### 10. Property, plant and equipment

	Fixtures, fittings & equipment £000	Assets under construction £ 000	Total £000
<b>Cost or valuation</b>			
At 28 September 2019	2,680	2,007	4,687
Additions	240	2,504	2,744
Disposals <sup>a</sup>	(104)	(3,364)	(3,468)
<b>At 26 September 2020</b>	<b>2,816</b>	<b>1,147</b>	<b>3,963</b>
<b>Depreciation</b>			
At 28 September 2019	548	-	548
Provided in the period	592	-	592
Disposals <sup>a</sup>	(104)	-	(104)
<b>At 26 September 2020</b>	<b>1,036</b>	<b>-</b>	<b>1,036</b>
<b>Carrying amount</b>			
<b>At 26 September 2020</b>	<b>1,780</b>	<b>1,147</b>	<b>2,927</b>
At 28 September 2019	2,132	2,007	4,139

a. Includes assets which are fully depreciated and have been removed from the fixed asset register.

The majority of assets in the course of construction are held on behalf of other Group companies. The assets are transferred to other Group companies upon completion.

### 11. Commitments

#### Capital commitments

The total amount contracted for but not provided in the financial statements, in relation to software and property, plant and equipment was £2,903,000 (2019 £1,237,000).

# Mitchells & Butlers Leisure Retail Limited

## Notes to the Financial Statements for the 52 weeks ended 26 September 2020 (continued)

### 12. Inventories

	26 September 2020 £000	28 September 2019 £000
Goods held for resale	-	1

### 13. Trade and other receivables

#### Current trade and other receivables

	26 September 2020 £000	28 September 2019 (restated*) £000
Trade receivables	680	695
Amounts owed from group undertakings <sup>a</sup>	58,024	42,420
Prepayments	3,081	6,348
Coronavirus Job Retention Scheme receivable <sup>b</sup>	1,094	-
Other receivables	5,125	10,631
Total current trade and other receivables	68,004	60,094

#### Non-current trade and other receivables

	26 September 2020 £000	28 September 2019 (restated*) £000
Amounts owed from group undertakings <sup>a</sup>	21,346	21,346
Total non-current trade and other receivables	21,346	21,346

\* The prior period balance has been restated from current to non-current (as described in note 1).

- Amounts owed from fellow subsidiary undertakings are repayable on demand. Interest is not charged on all balances. Where interest is charged, it is charged at market rate, based on what can be achieved on corporate deposits.
- Amount due from HMRC in relation to the Coronavirus Job Retention Scheme, as described in note 5.

The Directors consider that the carrying amount of trade receivables, amounts owed from group undertakings and other receivables approximately equates to their fair value. A lifetime ECL of £1,572,000 has been recognised against other receivables (2019 £514,000).

Credit risk on trade receivables and other receivables is considered to be a low-level risk. Trade receivables and other receivables mainly represent cash collateral deposits held by third parties. 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.

Credit risk on amounts owed from group undertakings is considered to be low risk. Mitchells & Butlers plc, the ultimate parent company provides a guarantee to subsidiary undertakings to enable them to meet debts as they fall due. The Directors also perform an assessment of the amounts owed from group undertakings and recognise any expected credit loss, where applicable.

# Mitchells & Butlers Leisure Retail Limited

## Notes to the Financial Statements for the 52 weeks ended 26 September 2020 (continued)

### 14. Trade and other payables

	26 September 2020 £000	28 September 2019 £000
Trade payables	59,252	79,023
Accrued expenses	43,304	44,445
Social security and other taxes	43,379	28,341
Deferred income	24	30
Other payables	3,992	2,668
Amounts owed to group undertakings <sup>a</sup>	131,485	90,637
Total trade and other payables	<u>281,436</u>	<u>245,414</u>

- a. Amounts owed to fellow subsidiary undertakings are repayable on demand. Interest is not charged on all balances. Where interest is charged, it is charged at market rate, based on what can be achieved on corporate deposits.

The Directors consider that the carrying amount of trade and other payables approximately equates to their fair value.

### 15. Leases

#### Right-of-use assets

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

	Motor Vehicles £000
<b>Cost</b>	
At 28 September 2019	-
Transition to IFRS 16	3,439
Additions <sup>a</sup>	<u>1,315</u>
<b>At 26 September 2020</b>	<u>4,754</u>
<b>Accumulated depreciation and impairment</b>	
At 28 September 2019	-
Provided during the period	<u>(1,577)</u>
<b>At 26 September 2020</b>	<u>(1,577)</u>
<b>Net book value</b>	
<b>At 26 September 2020</b>	<u>3,177</u>
At 28 September 2019	<u>-</u>

- a. Additions to right-of-use assets include new leases and lease extensions.

The Company 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 £nil. The leases all relate to the leasing of motor vehicles.

# Mitchells & Butlers Leisure Retail Limited

## Notes to the Financial Statements for the 52 weeks ended 26 September 2020 (continued)

### 15. Leases (continued)

#### Lease liabilities

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

	26 September 2020 £000
<b>Amounts payable under lease liabilities</b>	
Due within one year	911
Due between one and five years	1,563
Due after five years	-
Total undiscounted lease liabilities	2,474
Less: impact of discounting	(215)
Present value of lease liabilities	2,259
 Analysed as:	
Current lease liabilities - amounts due within twelve months	863
Non-current lease liabilities - amounts due after twelve months	1,396
	2,259

### 16. Deferred tax

#### Critical accounting judgements

Recognition of deferred tax assets involves judgement regarding the future financial performance of the Company and the Mitchells and Butlers Group. The future financial performance used in this judgement is the base case forecast scenario as described in the going concern assessment in note 1. Under the base case forecast the Mitchells and Butlers 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 Mitchells and Butlers Group by the Government.

The deferred tax assets and liabilities recognised in the balance sheet are as follows:

	26 September 2020 £000	28 September 2019 £000
<b>Deferred tax asset</b>		
Accelerated capital allowances	420	290
Share-based payments	899	2,417
Trading losses	6,989	-
	8,308	2,707
	52 weeks ended 26 September 2020 £000	52 weeks ended 28 September 2019 £000
<b>Deferred tax in the income statement</b>		
Accelerated capital allowances	130	(33)
Trading losses	6,989	-
Share-based payments	(327)	323
Total deferred tax credit in the income statement	6,792	290

# Mitchells & Butlers Leisure Retail Limited

## Notes to the Financial Statements for the 52 weeks ended 26 September 2020 (continued)

### 16. Deferred tax (continued)

	52 weeks ended 26 September 2020 £000	52 weeks ended 28 September 2019 £000
Taxation relating to items recognised directly in equity		
Deferred tax:		
Tax (charge)/credit related to share-based payments	<u>(1,191)</u>	<u>764</u>

### 17. Share capital

#### Allotted, called up and fully paid

	26 September 2020		28 September 2019	
	No.	£	No.	£
Ordinary shares of £1 each	<u>300</u>	<u>300</u>	<u>300</u>	<u>300</u>

All of the ordinary shares rank equally with respect to voting rights and rights to receive dividends.

### 18. Adoption of IFRS 16 Leases

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

#### Impact of IFRS 16 on the financial statements

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

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

	£000
Total lease liabilities recognised under IFRS 16 at 29 September 2019	1,825
Reconciling items:	
Lease prepayments	<u>1,614</u>
Total right-of-use assets recognised under IFRS 16 at 29 September 2019	<u>3,439</u>

#### Adoption of IFRS 16 Leases

##### Balance sheet

The impact on the opening balance sheet is summarised below:

	Closing balance sheet at 28 September 2019 £000	IFRS 16 impact £000	Opening balance sheet at 29 September 2019 £000
Right-of-use assets	-	3,439	3,439
Trade and other receivables	81,440	(1,614)	79,826
Lease liabilities – non-current	-	(1,825)	(1,825)
Retained earnings <sup>a</sup>	145,594	<u>-</u>	145,594

a The net impact of IFRS 16 on opening retained earnings is £nil.

# Mitchells & Butlers Leisure Retail Limited

## Notes to the Financial Statements for the 52 weeks ended 26 September 2020 (continued)

### 18. Adoption of IFRS 16 Leases (continued)

#### *Income statement*

The Company has recognised depreciation and interest costs in respect of leases that were previously classified as operating leases in the income statement for the period, rather than rental charges. During the 52 weeks ended 26 September 2020, the Company recognised £1,577,000 of depreciation charges and £57,000 of interest costs in respect of these leases.

### 19. Contingent liabilities

The Company is party to a composite guarantee with other Group companies which also participate in its day-to-day cash pooling arrangements. Any potential liability is the aggregate gross overdraft of every participant, capped at the amount of cash held within the pooling arrangement by the Company. At 26 September 2020, the Company held cash within the pooling arrangement of £274,000 (2019 £1,221,000) which is less than the aggregate gross overdraft of all the participant companies. Therefore, at 26 September 2020, the Company had a contingent liability of £274,000 (2019 £1,221,000) under the composite guarantee.

### 20. Ultimate parent undertaking

The Company's immediate parent is Mitchells & Butlers Leisure Holdings Limited.

The Company's ultimate parent and controlling party is Mitchells & Butlers plc.

#### **Relationship between entity and parents**

The parent of the largest and smallest group in which these financial statements are consolidated is Mitchells & Butlers plc, incorporated in the United Kingdom.

The consolidated financial statements of Mitchells & Butlers plc are available from the Company Secretary, 27 Fleet Street, Birmingham, B3 1JP, which is the registered address of the Company.

All undertakings, including the Company, are companies incorporated in the United Kingdom and registered in England and Wales.