Registration number: 04778667

Mitchells & Butlers Finance plc

Annual Report and Financial Statements

for the 52 weeks ended 24 September 2022

Mitchells & Butlers Finance plc
Strategic Report for the 52 weeks ended 24 September 2022

Mitchells & Butlers Finance plc ("the Company") is a public company limited by shares and is registered in England and Wales 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 14.

The Directors present their Strategic Report for the 52 weeks ended 24 September 2022. The comparative period is for the 52 weeks ended 25 September 2021.

Business Model

Fair review of the business
During the period, the Company has acted, and will continue to act, as a financing company in connection with the securitisation which occurred on 13 November 2003, of the majority of the UK pubs and restaurants of the Group. Under the securitisation arrangements, the Company has no employees or premises and limited permitted activities. Its principal activities are the issue of secured loan notes and the onward lending of the proceeds to other companies within the Group. The Company issued the proceeds of the loan notes as Term Advances to another Group company, Mitchells & Butlers Retail Ltd, at an incremental margin of 1 basis point.

Key Performance Indicators
As the Company is a special purpose financing vehicle whose actions are constrained by the terms of the securitisation, the Directors believe that key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. Key performance indicators for the Group as a whole, which includes the Company, are discussed in the Annual Report and Accounts 2022 of Mitchells & Butlers plc.

Principal risks and uncertainties
The main risks which impact the Company result from movements in interest rates and foreign exchange rates. Derivative financial instruments, principally interest rate swaps, are used to manage these risks and are described in note 11. There is also a risk that Mitchells & Butlers Retail Limited, the beneficiary of the term advances, may be unable to make scheduled debt and interest repayments if its trading is restricted. There are a number of covenants applicable to the performance and asset value of Mitchells & Butlers Retail Limited. Mitchells & Butlers Retail Limited maintains headroom against these risks and regular forecasting and testing of covenant compliance is performed.

Confirmation of Directors' duties
Section 172 of the Companies Act 2006 (s.172) requires the Directors to act in the way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard, amongst other matters, to the following considerations:

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

As part of their induction, the Directors are briefed on their duties including those under s.172, and they can access professional advice on these either from the Group Company Secretary or, if they judge it necessary, from independent advisers for the effective discharge of their duties. In addition, the board of directors of the Company's ultimate parent undertaking, Mitchells & Butlers plc, provides supervision and guidance to the Directors in relation to their duties under s.172, particularly with respect to corporate governance and business strategies. Consequently, each Director understands his or her duties and the need to act in a way that, in their judgement, promotes the success of the Company for the benefit of all stakeholders, with due regard to the varying interests of different stakeholder groups.

The Company is part of the Mitchells & Butlers plc Group. The Mitchells & Butlers plc's board of directors is responsible for setting the strategy and values of the Group as a whole, which are set out in the Mitchells & Butlers plc Annual Report and Accounts 2022. The Mitchells & Butlers plc's board of directors oversees a robust and transparent process which provides an appropriate level of direction and support to the Group in the identification, assessment and management of risks across all areas of its business which have the potential to damage the Group's financial position, shareholder value, responsibilities to its staff and guests, reputation and relationships with other key stakeholders, which includes employees. The Group's culture is embodied in a set of PRIDE values of Passion, Respect, Innovation, Drive and Engagement which underpin its key priorities of People, Practices, Profits and Guests. This is also set at Group level but covers all individuals at any level within the Group, including the Directors. At Group level, established communication cascade and mechanisms are in place for employees, suppliers and guests and engagement with employees is discussed on page 67 of the Mitchells & Butlers plc Directors' Report, which sets out the various platforms for employee communications, facilitated by Dave Coplin, a non-executive Director who acts as the 'employee voice' for employees.

Confirmation of Directors' duties (continued)
High standards of business conduct are expected throughout the Group, in furtherance of which each member of the Group, including the Company, is expected to comply with the following Group policies, which are set out in the Mitchells & Butlers plc Annual Report and Accounts 2022:

- the Group's Code of Ethics (see pages 81 to 82 of the Corporate Governance Statement);
- the provisions of the Modern Slavery Act 2015 (which includes a Supplier Code of Conduct) (see page 68 of the Directors' Report); and
- the environmental impact of the Group's activities (see pages 28 to 31 of the Sustainability section of the Strategic Report).

There are also established communication mechanisms for employees, suppliers and guests which are implemented on a Group wide basis, as well as the review of each member of the Group's, including the Company's, business plans and targets as part of the wider Group.

Certain significant events occurred during FY 2022 which merited consideration at a Group level. These consisted of the continued impact of the Covid-19 pandemic, including the emergence of the 'Omicron' variant of the virus, and the implications of rising cost inflation notably on food and utility costs. These business considerations affected the entire Group, including the Company, and in considering them Group-wide attention was required to be paid to the allocation of resources so that the interests of one stakeholder group were not prejudiced in relation to the others.

As is normal for listed companies, the Group delegates authority for day-to-day management of the Company to executives within the Group. Throughout FY 2022 the Board has, however, ensured it has given due care and consideration to the responsibilities, values and objectives outlined above and has supervised the business activities and prospects of the Company and made decisions relating to the Company's affairs accordingly. In particular, in carrying out these functions the Board has had regard to those stakeholders which it has identified as being of significant importance, namely those employees of the Group who are likely to be affected by the activities of the Company, suppliers to the Company or Group, and anyone else likely to be affected by the outcome of the relevant matter falling for consideration on a case-by-case basis.

Future Developments
The Company will continue to act as a financing company within the Group.

Approved by the Board on 13 December 2022 and signed on its behalf by:

Andrew Freeman

A D Freeman
Director

Mitchells & Butlers Finance plc

Directors' Report for the 52 weeks ended 24 September 2022

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 24 September 2022. The comparative period is for the 52 weeks ended 25 September 2021.

Results

Finance income for the period was £94,092,000 (2021 £102,335,000) with profit for the period before taxation of £131,000 (2021 £1,816,000). Taxation credited against the profit for the period was £nil (2020 £260,000) leaving a profit after tax of £131,000 (2021 £2,076,000).

Details of future developments can be found in the Strategic Report on page 2.

Dividends

No dividends were declared or paid during the period (2021 £nil). The Directors are proposing a final dividend of £nil (2021 £nil).

Securitisation

On 13 November 2003, the Securitisation Group refinanced its debt by raising £1,900m through a securitisation of the majority of its UK pubs and restaurants owned by Mitchells & Butlers Retail Limited ('MAB Retail'). On 15 September 2006 the Securitisation Group completed a further debt ('tap') issue to borrow an additional £655m and refinance £450m of existing debt at lower cost. The Securitisation and tap issue were implemented as follows:

- The Company issued secured loan notes to third-party investors. The loan notes, which were issued in various tranches as set out in note 10 to the financial statements, are listed on the Irish Stock Exchange;

- Under an Issuer/Borrower Facility Agreement dated 13 November 2003, and amended and restated on 15 September 2006, the Company lent the proceeds from the sale of the loan notes to MAB Retail. The amounts advanced under this Agreement and their terms are set out in note 8 to the financial statements;

- The loan notes are secured on the assets and future income streams of MAB Retail through the Term Advances made under the Issuer/Borrower Facility Agreement.

Since 13 November 2003, receipts of interest and repayment of principal received under the Issuer/Borrower Facility Agreement have provided the source of funds for the payments of interest and repayment of principal under the secured loan notes.

In connection with the securitisation tap issue, the Company increased its liquidity facility to £295m. This facility is available in certain circumstances if the Company has insufficient funds to make scheduled payments on the secured loan notes. The amount drawn at 24 September 2022 is £nil (25 September 2021 £nil).

In addition, scheduled interest payments and repayments of principal in respect of the Class A1N, A3N, A4 and Class AB secured loan notes are guaranteed by Ambac Assurance UK Limited (Ambac), a financial guarantee insurance company, in the event that the Company is unable to pay. This guarantee is limited to those note holders noted above.

The securitisation is governed by various covenants, warranties and events of default. To date, and taking account of the revised arrangement agreed as a result of covid 19, all covenants and warranties have been complied with and no events of default have occurred.

During the prior period, and as a result of the ongoing Covid-19 pandemic, revised arrangements regards the secured financing structure were agreed with the controlling creditor of the securitisation and the securitisation trustee. As a result, a series of amendments and waivers to the securitisation covenants were obtained, as detailed in the Mitchells & Butlers plc Annual Report and Accounts 2021. Copies of the Mitchells & Butlers plc Annual Report and Accounts 2021 are available from the registered office at 27 Fleet Street, Birmingham, B3 1JP or via the website www.mbplc.com.

Going concern

The financial statements have been prepared on a going concern basis, but with material uncertainty arising from the prevailing high level of unpredictability and uncertainty concerning both sales and particularly, cost inflation. A full assessment of the going concern statement has been provided in note 1. 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.

As described in 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.

Financial risk and treasury management
Details of the Company's policy on addressing risks are given on pages 27 to 29 and details about financial instruments are shown in note 11. The financial risks faced by the Company are identified and managed by the Group's Treasury department.

Internal control and risk management processes
The Group has in place internal control and risk management systems in relation to the Company's financial reporting process. These systems include policies and procedures to facilitate the maintenance of records that accurately and fairly reflect transactions, provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with FRS 101, and that require reported data to be reviewed and reconciled.

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

J A Berrow (resigned 30th April 2022)
A W Vaughan
S K Martindale
L J Miles
G J McMahon (resigned 31st August 2022)
M Mottram (Appointed 19th May 2022)
A D Freeman (Appointed 1st September 2022)
A J M Hughes (Appointed 1st September 2022)

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.

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.

Appointment of auditor
KPMG LLP were appointed as auditor during the period following Deloitte LLP's resignation after completion of the FY 2021 audit.

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

Approved by the Board on 13 December 2022 and signed on its behalf by:

Andrew Freeman

A D Freeman
Director

Mitchells & Butlers Finance plc

Directors' Responsibilities Statement

The Directors are responsible for preparing the Strategic Report, the Directors' 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 they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), 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 estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

Independent Auditor's Report to the members of Mitchells & Butlers Finance plc

1 Our opinion is unmodified

We have audited the financial statements of Mitchells & Butlers Finance plc ("the Company") for the 52 week period ended 24 September 2022 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 24 September 2022 and of its profit for the 52 week period then ended.
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclose Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We were first appointed as auditor by the Directors on 25 January 2022. The period of total uninterrupted engagement is for the one financial 52 week period ended 24 September 2022. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. No non-audit services prohibited by that standard were provided We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

2 Material uncertainty related to going concern

	The risk	**Our response**
Going concern We draw attention to note 1 of the financial statements which indicates that the Company's ability to continue as a going concern is fundamentally linked to that of the Group (Mitchells & Butlers plc and its subsidiaries) as it is reliant on debt repayments from Mitchells & Butlers Retail Limited The Mitchells & Butlers plc group financial statements indicate that a material uncertainty exists over its ability to continue as a going concern These events and conditions, along with the other matters explained in note 1, constitute a material uncertainty 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.	***Disclosure quality*** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Company. There is little judgement involved in the directors' conclusion that risks and circumstances described in note 1 to the financial statements represent a material uncertainty over the ability of the company to continue as a going concern for a period of at least a year from the date of approval of the financial statements. However, clear, and full disclosure of the facts and the directors' rationale for the use of the going concern basis of preparation, including that there is a related material uncertainty, is a key financial statement disclosure and so was the focus of our audit in this area. Auditing standards require that to be reported as a key audit matter.	Our procedures included: **Assessing transparency:** • We considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks and, dependencies, and related sensitivities. Our procedures over the Group's going concern assessment also included: **Funding assessment:** • We assessed the forecast cash position, available committed facilities, and directors' assessment of the Group's ability to comply with covenants during the forecast period, to understand the financial resources available to the Group.

Independent Auditor's Report to the members of Mitchells & Butlers Finance plc (continued)

2 Material uncertainty related to going concern (continued)

	The risk	Our response
		Historical comparisons and benchmarking: • We assessed the ability of the Group to accurately forecast by comparing the most recent year's performance against budget and challenged the assumptions over the going concern period based on historical performance. We also challenged the actual performance in recent years versus base case and downside case to challenge the quantum of risks applied in the forecasts. • We considered the consistency of management's forecasts with other areas of the audit, including the right-of-use asset impairment review and revaluation of freehold and long leasehold properties. **Key dependency assessment:** • We evaluated how the Group model captures events and conditions that may cast significant doubt on the ability to continue as a going concern and evaluated whether key assumptions were within a reasonable range, and assessed the plausible but severe downside scenarios, particularly whether those downside scenarios reflected plausible impacts of higher cost inflation and changes in consumer behaviour on the business. **Sensitivity analysis:** • We assessed the downside sensitivities to ensure that these represented severe but plausible scenarios based on our knowledge of the business and sector and we considered the most recent trading results to form a holistic view of the Group. **Our sector experience:** • We assessed the Group forecasts and key assumptions by reference to our knowledge of the business and the general market conditions including the potential risk of management bias. We critically assessed the impact of those market conditions on sales and cost inflation assumptions included within the cashflow forecasts. **Evaluating directors' intent:** • We evaluated the achievability of the actions the Group directors consider they would take to improve the position should the risks materialise, taking into account the extent to which the directors can control the timing and outcome of these.

Independent Auditor's Report to the members of Mitchells & Butlers Finance plc (continued)

3 Other key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Going concern is a significant key audit matter and is described in section 2 of our report. In arriving at our audit opinion above, the other key audit matter was as follows:

	The risk	Our response
Valuation of financial instruments Derivative financial instruments: Assets £58,616,000 Liabilities £27,686,000 Accounting policy note 1 Financial disclosure note 11	***Subjective estimate*** The Company uses swaps to manage exposure to interest rate and currency risk. The valuation of these instruments is subjective and requires significant estimation particularly in relation to the determination of the credit risk adjustment. The level 2 fair value of the swaps are volatile and small changes in the inputs used for the valuation, notably the discount rate and credit risk adjustment, could have a significant effect on the amounts recorded for these financial instruments. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of financial instruments has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	Our procedures included: Third party confirmations: We obtained third party confirmations for the market value of the swaps Specialist valuation assessments: We independently valued the swaps, utilising our own KPMG valuation specialists, including the valuation of the credit risk adjustment required; and Assessing disclosures: We critically assessed the adequacy of the Company's disclosures in relation to the valuation of financial instruments. We performed the tests above rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

4 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £12m, determined with reference to a benchmark of total borrowings, of which it represents 0.8%.

Performance materiality was set at 75% of materiality for the financial statements as a whole, which equates to £9m. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the board of Directors any corrected or uncorrected identified misstatements exceeding £0.6m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was performed by a single audit team.

The audit work performed was predominately substantive as we placed limited reliance upon the Company's internal control over financial reporting.

5 Going concern basis of preparation

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic for at least a year from the date of approval of the financial statements ("the going concern period"). As stated in section 2 of our report, they have also concluded that there is a material uncertainty related to going concern.

An explanation of how we evaluated management's assessment of going concern is set out section 2 of our report.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we found the going concern disclosure in note1 to be acceptable.

6 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, internal audit and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected, or alleged fraud.
- Reading Board meeting minutes.
- Considering remuneration incentive schemes and performance targets for management and directors
- Using analytical procedures to identify any unusual or unexpected relationships.

  We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards and taking into account possible pressures to meet profit targets, our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements. On this audit we do not believe there is a fraud risk related to revenue recognition because the Company does not generate revenue.

We did not identify any additional fraud risks

In determining the audit procedures, we took into account the results of our evaluation of the Company-wide fraud risk management controls We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management/ those posted and approved by the same user/ those posted to unusual accounts related to cash and borrowings, seldom used accounts.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

Independent Auditor's Report to the members of Mitchells & Butlers Finance plc (continued)

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations (continued)

The potential effect of these laws and regulations on the financial statements varies considerably.
Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies' legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.
Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's license to operate. We identified data protection laws as those most likely to have such an effect, recognising the nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

7 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

8 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you 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 these respects.

Independent Auditor's Report to the members of Mitchells & Butlers Finance plc (continued)

9 Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

10 The purpose of our audit work and to whom we owe our responsibilities

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.

Simon Haydn-Jones
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snowhill Queensway
Birmingham
B4 6GH

13 December 2022

Mitchells & Butlers Finance plc
Income statement for the 52 weeks ended 24 September 2022

	Note	52 weeks ended 24 September 2022 £000	52 weeks ended 25 September 2021 £000
Finance income	4	**94,092**	102,335
Finance costs	5	**(93,961)**	(100,519)
PROFIT BEFORE TAXATION		**131**	1,816
Tax	6	**-**	260
PROFIT FOR THE PERIOD		**131**	2,076

The above results are derived from continuing operations.

The notes on pages 16 to 34 form an integral part of these financial statements.

Mitchells & Butlers Finance plc
Statement of Comprehensive Income
for the 52 weeks ended 24 September 2022

	Note	52 weeks ended 24 September 2022 £000	52 weeks ended 25 September 2021 £000
PROFIT FOR THE PERIOD		**131**	2,076
Items that may be reclassified subsequently to profit and loss:			
Cash flow hedges:			
-Gains/(losses) arising during the period	11	**32,465**	(19,164)
-Reclassification adjustments for items included in profit or loss	11	**(31,440)**	16,054
Tax relating to items that may be reclassified	6	**(256)**	658
		769	(2,452)
TOTAL COMPREHENSIVE INCOME/(LOSSES) FOR THE PERIOD		**900**	(376)

The notes on pages 16 to 34 form an integral part of these financial statements.

Mitchells & Butlers Finance plc

(Registration number: 04778667)

Balance sheet as at 24 September 2022

	Note	24 September 2022 £000	25 September 2021 £000
NON-CURRENT ASSETS			
Derivative financial instruments	11	**82,650**	197,965
Deferred tax asset	12	**24**	280
Intercompany loan receivables	8	**1,274,572**	1,389,030
TOTAL NON-CURRENT ASSETS		**1,357,246**	1,587,275
CURRENT ASSETS			
Trade and other receivables	7	**22,050**	1,501
Derivative financial instruments	11	**3,944**	37,339
Cash and cash equivalents		**5,361**	5,320
Intercompany loan receivables	8	**113,894**	109,604
TOTAL CURRENT ASSETS		**145,249**	153,764
TOTAL ASSETS		**1,502,495**	1,741,039
CURRENT LIABILITIES			
Trade and other payables	9	**(21,990)**	(1,530)
Borrowings	10	**(113,884)**	(109,608)
Derivative financial instruments	11	**(354)**	(37,200)
TOTAL CURRENT LIABILITIES		**(136,228)**	(148,338)
NET CURRENT ASSETS		**9,021**	5,426
NON-CURRENT LIABILITIES			
Borrowings	10	**(1,333,575)**	(1,416,732)
Derivative financial instruments	11	**(27,332)**	(171,509)
TOTAL NON-CURRENT LIABILITIES		**(1,360,907)**	(1,588,241)
TOTAL LIABILITIES		**(1,497,135)**	(1,736,579)
NET ASSETS		**5,360**	4,460
EQUITY			
Share capital	13	**50**	50
Hedging reserve		**(71)**	(840)
Retained earnings		**5,381**	5,250
TOTAL EQUITY		**5,360**	4,460

Approved by the Board and authorised for issue on 13 December 2022. They were signed on its behalf by:

Andrew Freeman

A D Freeman
Director

The notes on pages 16 to 34 form an integral part of these financial statements

Mitchells & Butlers Finance plc

Statement of changes in equity for the 52 weeks ended 24 September 2022

	Share capital £000	Hedging reserve £000	Retained earnings £000	Total £000
At 26 September 2020	50	1,612	3,174	4,836
Profit for the period	-	-	2,076	2,076
Other comprehensive income	-	(2,452)	-	(2,452)
Total comprehensive income	-	(2,452)	2,076	(376)
At 25 September 2021	50	(840)	5,250	4,460
Profit for the period	-	-	**131**	**131**
Other comprehensive expense	-	**769**	-	**769**
Total comprehensive (expense)/income	-	**769**	**131**	**900**
At 24 September 2022	**50**	**(71)**	**5,381**	**5,360**

The notes on pages 16 to 34 form an integral part of these financial statements

Mitchells & Butlers Finance plc

Notes to the Financial Statements for the 52 weeks ended 24 September 2022

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 (FRS) 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 share-based payments, requirements of IFRS 7 Financial Instruments: Disclosures, the disclosure requirements of IFRS 13 Fair Value Measurement, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. Where relevant, equivalent disclosures have been given in the Annual Report and Accounts 2022 of Mitchells & Butlers plc.

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below. 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 within the UK and in accordance with the Companies Act 2006, 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 24 September 2022 and the comparative period ended 25 September 2021 both include 52 trading weeks.

Going concern
As described in the Directors' report on page 3, the Company acts as a financing company for the Group and is reliant on debt repayments from Mitchells & Butlers Retail Ltd. The financing of Group is based on securitised debt which includes various covenants.

The Company's ability to operate as a going concern and discharge its liabilities as they fall due is therefore fundamentally linked to that of the Group (Mitchells and Butlers plc and its subsidiaries). The Mitchells & Butlers plc Group financial statements indicate that a material uncertainty exists over its ability to continue as a going concern. The following basis of preparation wording has been included in the Group accounts:

The combined impact on the hospitality sector of Covid-19, Brexit and more recently high and persistent cost inflation, initially in energy, wages and food costs, but now evident throughout most of the Group's cost base, has resulted in reduced levels of sales, profits and operating cash flow since March 2020. These factors cast a high degree of uncertainty as to the future financial performance and cash flows of the Group and have been considered by the Directors in assessing the ability of the Group to continue as a going concern.

Within the Group's secured debt financing structure there are two main covenants: the level of net worth (being the net asset value of the securitisation group) and, FCF to DSCR. As at 24th September 2022 there was substantial headroom on the net worth covenant. FCF to DSCR represents the multiple of Free cash Flow (being EBITDA less tax and required capital maintenance expenditure) generated by sites within the structure to the cost of debt service (being the repayment of principal, net interest charges and associated fees). This is tested quarterly on both a trailing two quarter and a four quarter basis. These tests were waived until January 2022 (two quarter) and April 2022 (four quarter) and then set as transitioning to their full level of a minimum of 1.1 times by January 2023.

In the year ahead the main Group uncertainties are considered to be the maintenance of growth in sales in the face of pressure on consumer spending power in an environment of falling real wages, and the future outlook for cost inflation across the whole of the cost base but most notably in energy prices, food costs and wages and salaries. The outlook for these is highly uncertain and volatile, particularly energy costs in the second half of FY23, and will depend on a number of factors including consumer confidence, global political developments and supply chain disruptions and government policy.

1. Accounting policies (continued)

Going concern (continued)
The Group Directors have reviewed the financing arrangements against a forward trading forecast in which they have considered the Group's current financial position. This forecast assumes further growth in sales beyond pre-pandemic levels and on the prior year slightly below the level generated in recent months. Costs are also assumed to continue to increase in line with recent experience. Under this base case the Group is able to stay within revised committed facility financial covenants, albeit with limited headroom, and maintains sufficient liquidity.

The Group Directors have also considered a severe but plausible downside scenario covering adverse movements against the base forward forecast in both sales and cost inflation in which some, but limited, mitigation activity is taken including lower capital expenditure on site remodel activity and a flex down of labour costs in line with reduced sales. In this scenario sales are assumed to remain in growth but at a level further below current run rates, and the impact of unmitigated cost inflation is higher particularly in the areas of food, labour and energy. In this downside scenario, whilst the Group retains sufficient liquidity throughout the period based on existing facilities, securitised covenants would be breached in the fourth quarter of the year. Under such a scenario the Directors believe that, on the basis of previous waivers secured, the strong asset base and longer-term trading prospects, waivers should be forthcoming from main stakeholders. However, this is not within the Group's control and as a result the Directors cannot conclude that the possibility of an un-waived breach of covenant is remote.

After due consideration of these factors, the Group Directors believe that it remains appropriate to prepare the Company's financial statements on a going concern basis. However, the circumstances outlined above, in particular the uncertainty concerning sales and cost inflation with the resulting possibility of an un-waived covenant breach, and ultimately the need to renew unsecured facilities on or before February 2024, indicate the existence of a material uncertainty related to events or conditions that may cast significant doubt over the Group's and the Company's ability to realise their assets and discharge their liabilities in the normal course of business. The Company's financial statements do not include any adjustments that would arise from the basis of preparation being inappropriate.

New and amended IFRS Standards that are effective for the current period
The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and interpretations which have been adopted by the Company in these financial statements for the first time with the following impact.

Accounting standard	Effective date
Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments	The Company has adopted the amendments to IFRS 9, included in Phase 2 of the Interest Rate Benchmark Reform, in the current period, which address issues that might affect financial reporting during the reform of an interest rate benchmark. This includes the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. A number of the Company's financial instruments had LIBOR as their interest reference rate at the start of the period. During the period, the Company completed the necessary amendments to transition its financing arrangements in advance of the discontinuation of LIBOR as a floating reference rate, replacing LIBOR with a Sterling Overnight Index Average (SONIA) based rate in respect of Sterling and a Secured Overnight Financing Rate (SOFR) based rate in respect of US Dollars. The amendments in respect of the securitised bonds were agreed by the Bondholders through a formal consent solicitation process and bilateral agreements were reached with securitised swap providers (using amended reference rates consistent with those agreed under the bonds). All sterling based facilities and agreements referencing Sterling LIBOR transitioned in the period and now reference SONIA, plus a credit adjustment spread of 11.93 basis points to maintain an economically equivalent position, for periods commencing on or after 1st January 2022. The facilities currently referencing US Dollar LIBOR will transition to SOFR plus 26.161 basis points for periods commencing on or after 1st July 2023. The liquidity facility and the unsecured committed facility were arranged on a SONIA basis in the prior period, so did not require any further amendment. As part of the transition, all of the Company's hedge relationships have been reviewed and these continue to be highly effective. Hedge documentation has been updated in accordance with the reliefs permitted in the amendments to IFRS 9, designating the new Interest reference rate in both the hedged item and the hedging instrument. As a result of the transition, there has been no impact on the amounts recognised in the income statement or statement of other comprehensive income.

1. **Accounting policies (continued)**

New and amended IFRS Standards (continued)

The Directors do not expect that the adoption of the standard listed above will have a material impact on the consolidated financial statements in future periods.

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 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.

Finance income

Finance income is recognised when it is probable that the economic benefits will flow to the Company and the amount of income 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.

Foreign currency transactions and balances

US$ denominated monetary liabilities are translated at the relevant rate of exchange at the balance sheet date of £1 = US $1.09 (2021 £1 = US $1.37). Foreign exchange differences arising on translation are recognised in the profit and loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and other short-term highly liquid deposits with an original maturity at acquisition of three months or less. Cash held on deposit with an original maturity at acquisition of more than three months is disclosed as other cash deposits.

Taxation

The income tax expense represents both the income tax payable, based on profits 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.

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

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

Trade payables

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

Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholder.

1. Accounting policies (continued)

Financial instruments
Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial assets
All financial assets are recognised or derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Classification
Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL); derivative instruments in designated hedge accounting relationships; 'held-to-maturity' investments; 'available-for-sale' (AFS) financial assets; and 'loans and receivables'. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

Term Advances
Term Advances to Mitchells & Butlers Retail Limited are stated initially at fair value (normally the amount advanced), net of any facility fees. Finance income, which is the difference between the net amounts advanced and the total amount of payments to be received in respect of the advances, is allocated to periods over the term of the advances using the effective interest method.

Impairment of financial assets
The Company recognises a loss allowance for expected credit losses financial assets, where applicable. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial asset.

The Company adopts the simplified approach detailed in IFRS 9 for trade receivables and other receivables and therefore recognises lifetime ECL on these assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial assets, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial asset has not increased significantly since initial recognition, the company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Definition of default
The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets are generally not recoverable when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company).

Credit-impaired financial assets
At each reporting date, the Company assesses whether financial assets are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-off policy
The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses
The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

1. Accounting policies (continued)

Impairment of financial assets (continued)
Measurement and recognition of expected credit losses (continued)
As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date. For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the company in accordance with the contract and all the cash flows that the company expects to receive, discounted at the original effective interest rate.

If the company has measured the loss allowance for a financial asset at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Company recognises an impairment gain or loss in profit or loss for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets
The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the company does not retain substantially all the risks and rewards of ownership but continues to control a transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities
Financial liabilities are classified as either 'borrowings at amortised cost' or 'other financial liabilities'.
Other financial liabilities are initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method.

Borrowings
Borrowings are stated initially at fair value (normally the amount of the proceeds) net of issue costs. Thereafter they are stated at amortised cost using an effective interest basis. Finance costs, which are the difference between the net proceeds and the total amount of payments to be made in respect of the instruments, are allocated over the term of the debt using the effective interest method.

Other financial liabilities are initially measured at fair value, net of transaction costs.
All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

Derecognition of financial liabilities
The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability discharged and the consideration paid and payable is recognised in profit or loss.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating finance charges over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) over the expected life of the debt instrument, or where appropriate, a shorter period, to the amortised cost of a financial liability. Finance charges are recognised on an effective interest basis for all debt instruments.

Derivative financial instruments
The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including interest rate and currency swaps.

Derivative financial instruments are initially measured at fair value on the contract date and are remeasured to fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

1. Accounting policies (continued)

Derivative financial instruments (continued)
A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Company has both legal right and intention to offset and intention to settle on a net basis or realise simultaneously. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Hedge accounting
The Company designates its derivative financial instruments i.e. interest rate and currency swaps, as cash flow hedges. At the inception of the hedge relationship, the Company documents the relationship between the hedging

instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

• there is an economic relationship between the hedged item and the hedging instrument;
• the effect of credit risk does not dominate the value changes that result from that economic relationship; and
• the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Company adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

Cash flow hedges
The effective portion of changes in the fair value of derivatives are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Company expects that some or all of the loss accumulated in the hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

Hedge accounting is discontinued only when the hedging relationship ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold or terminated.

The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in the hedging reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in the hedging reserve is reclassified immediately to profit or loss.

2. Employees and Directors
The Company has no employees in the current or prior period.

Directors' remuneration
The eight Directors (2021 five) who served during the period were all employed by another Group company (Mitchells & Butlers Leisure Retail Limited) and are also Directors of other subsidiary companies of the Group. The Directors received total remuneration of £1.4m (2021 £1.1m) in respect of their services to the 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 six (2021 five) of the Directors were members of the Group's defined contribution scheme, with one (2021 one) Director also holding accrued service within the Group's defined benefit scheme. During the period, four (2021 four) of the Directors were granted share options in the 'RSP' (Restricted Share Plan) scheme. Details of these schemes are disclosed in the Mitchells & Butlers plc Annual Report and Accounts 2022.

The highest paid Director received emoluments of £0.4m (2021 £0.3m), with Company contributions to defined contribution pension schemes of £nil (2021 £nil). This Director was also granted share options under the RSP scheme during the current and prior period.

3. Auditor's remuneration

KPMG LLP were appointed as external auditor in the current period. 2021 fees were payable to the previous external auditor, Deloitte LLP. Fees paid to KPMG LLP for the audit of the Company's financial statements were £30,000 (2021 £30,000). Fees paid to KPMG LLP and their associates for non-audit services are not disclosed for the Company since the Annual Report and Accounts 2022 of Mitchells & Butlers plc, the ultimate parent of Mitchells & Butlers Finance plc is required to discloses such fees on a consolidated basis. The fee is bome on behalf of the Company by another group company.

4. Finance income

	52 weeks ended 24 September 2022 £000	52 weeks ended 25 September 2021 £000
Intercompany interest on Term Advances	**92,155**	100,274
Liquidity facility fees recovered from Mitchells & Butlers Retail Limited	**1,922**	2,061
Bank interest receivable	**15**	-
Total finance income	**94,092**	102,335

5. Finance costs

	52 weeks ended 24 September 2022 £000	52 weeks ended 25 September 2021 £000
Securitised borrowings finance costs	**(92,024)**	(98,458)
Liquidity facility fees	**(1,937)**	(2,061)
Total finance costs	**(93,961)**	(100,519)

6. Taxation

	52 weeks ended 24 September 2022 £000	52 weeks ended 25 September 2021 £000
Taxation – income statement		
Current taxation		
UK corporation tax	**(25)**	(345)
Group relief received for nil payment	**25**	345
Amounts overprovided in prior periods	**-**	260
Total tax credit recognised in the income statement	**-**	260

The standard rate of corporation tax applied to the reported profit is 19% (2021 19%).

The tax in the income statement for the period is lower (2021 lower) than the standard rate of corporation tax in the UK.

6. Taxation (continued)

The differences are reconciled below:

	52 weeks ended 24 September 2022 £000	52 weeks ended 25 September 2021 £000
Profit before tax	131	1,816
Taxation charge at the UK standard rate of corporation tax of 19% (2021 19%)	(25)	(345)
Group relief	(25)	(345)
Adjustments in respect of prior periods	-	260
Total tax credit	-	260

Factors which may affect future tax charges
The Finance Act 2021 increased the main rate of corporation tax rate from 19% to 25% with effect from 1 April 2023. The effect of this change has been reflected in the closing deferred tax balances at 24 September 2022 and 25 September 2021.

	52 weeks ended 24 September 2022 £000	52 weeks ended 25 September 2021 £000
Taxation – other comprehensive income		
Deferred tax:		
Items that may be reclassified subsequently to profit or loss:		
Cash flow hedges	(256)	658
Total tax credit/(charge) recognised in other comprehensive income	(256)	658

7. Trade and other receivables

	24 September 2022 £000	25 September 2021 £000
Amounts owed from group undertakings[a]	97	37
Prepayments	1,413	1,464
Other Financial Assets[b]	20,540	
Total trade and other receivables	22,050	1,501

a. Includes £37,000 (2021 £37,000) relating to amounts owed by Group undertakings in respect of called up share capital not paid.
b. Other financial assets relate to cash collateral provided by a swap counterparty as detailed in note 11.

Amounts due from fellow subsidiary undertakings are non-interest bearing and repayable on demand

The Directors consider that the carrying amount of amounts owed from group undertakings and other receivables approximately equates to their fair value. A lifetime ECL of £nil has been recognised against these balances.

Credit risk is described in note 11.

8. Term Advances to Mitchells & Butlers Retail Limited

	24 September 2022 £000	25 September 2021 £000
Amounts falling due within one year	**113,894**	109,604
Amounts falling due after more than one year	**1,274,572**	1,389,030
Total Term Advances	**1,388,466**	1,498,634

Under an Issuer/Borrower Facility Agreement dated 13 November 2003, amended and restated on 15 September 2006, the Company lent Mitchells & Butlers Retail Limited, a fellow subsidiary undertaking in the Mitchells & Butlers plc Group of companies, £1,900m.

On 15 September 2006, the Company lent a further £655m to Mitchells & Butlers Retail Limited on substantially the same terms as the original Term Advances. At the same time, the original A1 and A3 Term Advances were repaid and reissued as A1N and A3N Term Advances.

At 24 September 2022, the Term Advances consisted of ten tranches as follows:

Tranche	Initial principal lent £000	Interest	Principal repayment period (all by instalments)	Effective interest rate %	Principal outstanding at 24 September 2022 £000	Principal outstanding at 25 September 2021 £000	Expected weighted average life[b] (years)
A1N	200,000	Floating	2011 to 2028	6.62[a]	**86,954**	98,878	3 years
A2	550,000	Fixed – 5.58%	2003 to 2028	5.73	**158,208**	179,905	3 years
A3N	250,000	Floating	2011 to 2028	6.70[a]	**108,692**	123,597	3 years
A4	170,000	Floating	2016 to 2028	6.38[a]	**103,217**	116,102	3 years
AB	325,000	Floating	2020 to 2032	6.29[a]	**290,541**	304,769	7 years
B1	350,000	Fixed – 5.98%	2003 to 2023	6.13	**26,296**	46,365	1 years
B2	350,000	Fixed – 6.02%	2015 to 2028	6.13	**255,874**	269,979	4 years
C1	200,000	Fixed – 6.48%	2029 to 2030	6.57	**200,000**	200,000	7 years
C2	50,000	Floating	2033 to 2034	6.48[a]	**50,000**	50,000	11 years
D1	110,000	Floating	2034 to 2036	6.69[a]	**110,000**	110,000	13 years
	2,555,000				**1,389,781**	1,499,595	

a. After the effect of interest rate swaps (see note 11)
b. The expected remaining weighted average life is based on the Term Advances being held to maturity.

In order to mitigate the interest rate risk inherent in the floating rate Term Advances, the Company entered into interest rate hedging arrangements with Mitchells & Butlers Retail Limited which fix the interest rates payable.

At 24 September 2022 interest and margin is receivable on the floating rate Term Advances as follows:

Tranche	Interest	Margin
A1N	3 month SONIA	0.58%
A3N	3 month SONIA	0.58%
A4	3 month SONIA	0.70%
AB	3 month SONIA	0.73%
C2	3 month SONIA	2.00%
D1	3 month SONIA	2.25%

8. Term Advances to Mitchells & Butlers Retail Limited (continued)

The carrying value of the Term Advances is analysed as follows:

	24 September 2022 £000	25 September 2021 £000
Principal outstanding at start of period	1,499,595	1,608,835
Principal repaid during the period	(109,813)	(109,240)
Principal outstanding at end of period	1,389,782	1,499,595
Deferred issue costs	(2,761)	(3,364)
Accrued interest	1,445	2,403
Carrying value at end of period	1,388,466	1,498,634

9. Trade and other payables

	24 September 2022 £000	25 September 2021 £000
Accrued expenses	63	68
Amounts owed to group undertakings[a]	1,387	1,462
Other financial liabilities[b]	20,540	-
Total trade and other payables	21,990	1,530

a. Amounts owed to fellow subsidiary undertakings are non-interest bearing and repayable on demand.
b. Other financial liabilities relate to cash collateral provided by a swap counterparty as detailed in note 11

10. Borrowings

	24 September 2022 £000	25 September 2021 £000
Amounts falling due within one year		
Securitised debt	113,884	109,608
	113,884	109,608
Amounts falling due after more than one year:		
Securitised debt	1,333,575	1,416,732

	24 September 2022 £000	25 September 2021 £000
Securitised debt - maturity profile		
Amounts falling due within one year	113,884	109,608
Amounts falling due after more than one year:		
Between one and two years	181,993	142,170
Between two and five years	411,668	389,704
After five years	739,914	884,858
Total non-current borrowings	1,333,575	1,416,732
Total securitised borrowings	1,447,459	1,526,340

Mitchells & Butlers Finance plc

Notes to the Financial Statements for the 52 weeks ended 24 September 2022 (continued)

10. Borrowings (continued)

Securitised debt
On 13 November 2003, the Company issued £1,900m of secured loan notes in connection with the securitisation of the majority of the Group's UK pubs and restaurants business owned by Mitchells & Butlers Retail Limited.

On 15 September 2006, the Company issued a further £655m of secured loan notes in the form of the A4, AB, C2 and D1 loan notes as detailed below. These were issued under substantially the same terms as the original securitisation in November 2003. As part of the issue, the original A1 and A3 loan note tranches were repaid and reissued as A1N and A3N loan notes to take advantage of market rates.

The securitisation is governed by various covenants, warranties and events of default, many of which apply to Mitchells & Butlers Retail Limited, being the Group's main operating subsidiary. There are two main financial covenants, being the level of net assets and free cash flow (FCF) to debt service. FCF to debt service represents the multiple of cash generated by sites within the structure to the cost of debt service. This is tested quarterly on both a trailing two quarter and a four quarter basis. There are additional covenants regarding the maintenance and disposal of securitised properties and restrictions on its ability to move cash, by way of dividends for example, to other Group companies.

During the prior period, and as a result of the ongoing Covid-19 pandemic, revised arrangements regards the secured financing structure were agreed with the controlling creditor of the securitisation and the securitisation trustee. As a result, a series of amendments and waivers to the securitisation covenants were obtained, as detailed in the Mitchells & Butlers plc Annual Report and Accounts 2021. Copies of the Mitchells & Butlers plc Annual Report and Accounts 2021 are available from the registered office at 27 Fleet Street, Birmingham, B3 1JP or via the website www.mbplc.com

At the period end the loan notes consisted of ten tranches as follows:

Tranche	Initial principal lent £000	Interest	Principal repayment period (all by instalments)	Effective interest rate %	Principal outstanding at 24 September 2022 £000	Principal outstanding at 25 September 2021 £000	Expected weighted average life[b] (years)
A1N	200,000	Floating	2011 to 2028	6.61[a]	**86,954**	98,878	3 years
A2	550,000	Fixed – 5.57%	2003 to 2028	5.72	**158,208**	179,905	3 years
A3N[c]	250,000	Floating	2011 to 2028	6.69[a]	**108,692**	123,597	3 years
A4	170,000	Floating	2016 to 2028	6.37[a]	**103,217**	116,102	3 years
AB	325,000	Floating	2020 to 2032	6.28[a]	**290,540**	304,769	7 years
B1	350,000	Fixed – 5.97%	2003 to 2023	6.12	**26,296**	46,365	1 years
B2	350,000	Fixed – 6.01%	2015 to 2028	6.12	**255,874**	269,979	4 years
C1	200,000	Fixed – 6.47%	2029 to 2030	6.56	**200,000**	200,000	7 years
C2	50,000	Floating	2033 to 2034	6.47[a]	**50,000**	50,000	11 years
D1	110,000	Floating	2034 to 2036	6.68[a]	**110,000**	110,000	13 years
	2,555,000				**1,389,781**	1,499,595	

a. After the effect of interest rate swaps
b. The expected remaining weighted average life is based on the loan notes being held to maturity.
c. The retranslation movement of the A3N dollar note to GBP is designated and hedged by part of the fair value movements on the cross currency swap. The impact in the current year is £59,012,000 (2021 £27,715,000)

The loan notes are secured on the assets and future income streams of Mitchells & Butlers Retail Limited as described in the Directors' report. The A3N notes are hedged using currency swaps, whereby all principal and interest liabilities are swapped into sterling, and all of the floating rate notes are hedged using interest rate swaps which fix the interest rate payable.

Interest and margin is payable on the floating rate notes as follows:

Tranche	Interest	Margin
A1N	3 month SONIA	0.57%
A3N	3 month US LIBOR	0.45%
A4	3 month SONIA	0.69%
AB	3 month SONIA	0.72%
C2	3 month SONIA	1.99%
D1	3 month SONIA	2.24%

10. Borrowings (continued)

The overall cash interest rate payable on the loan notes is 6.3% (2021 6.3%) after taking account of interest rate hedging and the cost of the financial guarantee provided by Ambac Assurance UK Limited (Ambac). Ambac acts as a guarantor of the Group's obligations to repay interest and principal on the loan notes. In the event that the Group is unable to pay such amounts the guarantee is limited to the Class A1N, A3N, A4 and Class AB note holders only.

The securitisation is governed by various covenants, warranties and events of default, many of which apply to Mitchells & Butlers Retail Limited, the Group's main operating subsidiary. These include covenants regarding the maintenance and disposal of securitised properties and restrictions on its ability to move cash, by way of dividends for example, to other group companies. At 24 September 2022, Mitchells & Butlers Retail Limited had cash and cash equivalents of £61m (2021 £66m) and short-term investments of £nil (2021 £nil), which were governed by the covenants associated with the securitisation. Of these amounts £1m (2021 £1m), representing disposal proceeds, was held on deposit in an account over which there are a number of restrictions. The use of this cash requires the approval of the securitisation trustee and may only be used for certain specified purposes such as capital enhancement expenditure and business acquisitions.

The carrying value of the secured loan notes is analysed as follows:

	24 September 2022 £000	25 September 2021 £000
Principal outstanding at start of period	**1,527,310**	1,647,389
Principal repaid during the period	**(109,813)**	(103,849)
Exchange on translation of dollar loan notes	**31,297**	(16,230)
Principal outstanding at end of period	**1,448,794**	1,527,310
Deferred issue costs	**(2,772)**	(3,371)
Accrued interest	**1,437**	2,401
Carrying value at end of period	**1,447,459**	1,526,340

Liquidity Facility
Under the terms of the securitisation, the Group holds a liquidity facility of £295m provided by two counterparties. The amount drawn at 24 September 2022 is £nil (25 September 2021 £nil). There have no drawings during the period. The facility is not available for any other purpose and is sized to cover 18 months debt service.

11. Financial Instruments

Treasury Management
The financial risks faced by the Company are identified and managed by the Group Treasury department. The activities of the Treasury department are carried out in accordance with Board approved policies and are subject to regular audit. The Treasury department is responsible for ensuring that procedures are in place for the Company to comply with the terms of the securitisation, including the fixing of the interest cost of the Company's floating rate secured loan notes and Term Advances using interest rate swaps and cross currency swaps. The department does not operate as a profit centre.

Financial risk management and impairment of financial assets
Financial risk is managed by the Group's Treasury function. The Group's Treasury function is governed by a Board Approved Treasury Policy Statement which details the key objectives and policies for the Group's treasury management. The Treasury Committee ensures that the Treasury Policy is adhered to, monitors its operation and agrees appropriate strategies for recommendation to the Board. The Treasury Policy Statement is reviewed annually, with recommendations for change made to the Board, as appropriate. The Group Treasury function is operated as a cost centre and is the only area of the business permitted to transact treasury deals. It must also be consulted on other related matters such as the provision of guarantees or the financial implications of contract terms.

The main financial risks which impact the Company result from credit risk, market risk and funding and liquidity risk principally as a result of changes in interest and currency rates. Derivative financial instruments, principally interest rate and foreign currency swaps, are used to manage market risk. Derivative financial instruments are not used for trading or speculative purposes.

11. Financial Instruments (continued)

Credit risk and impairment
As part of the Group's securitisation, the Company made a number of term loans to another group company, Mitchells & Butlers Retail Limited. The facility agreement for the loans contains a number of covenants and charges which help to mitigate the Company's credit exposure from these loans.

The Group Treasury function enters into contracts with third parties in respect of the investment of surplus funds and derivative financial instruments for risk management purposes. These activities expose the Company to credit risk against the counterparties. To mitigate this exposure, Group Treasury operates policies that restrict the general investment of surplus funds and the entering into of derivative transactions to counterparties that have a minimum credit rating of 'A' (long-term) and 'A1'/'P1'/'F1' (short-term) at inception. Where ratings subsequently drop below the policy minimum additional approval is sought from the Board to retain the position or action is taken to move to a higher rated counterparty. The minimum long-term rating of any Company counterparty during the year was 'A'. The amount that can be invested or transacted at various ratings levels is restricted under the policy. Counterparties to derivative financial instruments may also be required to post collateral with the Company where their credit rating falls below a predetermined level. During the period a collateral amount of £20.5m has been paid to the Group. This is recognised as an other financial asset and other financial liability in the balance sheet.

The Group Treasury function reviews credit ratings, as published by Moody's, Standard & Poor's and Fitch Ratings, current exposure levels and the maximum permitted exposure at given credit ratings, for each counterparty on a daily basis. Any exceptions are required to be formally reported to the Mitchells & Butlers Treasury Committee on a four-weekly basis.

The maximum credit risk exposure faced by the Company relating to financial assets is represented by their carrying value at the balance sheet date. Significant concentrations of credit risk include the Term Advances, the external and intercompany interest rate swaps used to hedge the loan notes. The counterparty for the Term Advances is Mitchells & Butlers Retail Limited, a fellow subsidiary undertaking.

The Company's credit exposure as at 24 September 2022 was:

	12-month ECL 24 September 2022 £000	Lifetime ECL 24 September 2022 £000	Total 24 September 2022 £000	Total 25 September 2021 £000
Cash and cash equivalents	5,361	-	5,361	5,320
Amounts owed by group undertakings	37	-	37	37
Derivatives	58,616	-	58,616	27,501
Term Advances	1,388,466	-	1,388,466	1,498,634
Intercompany interest rate swaps	27,979	-	27,979	207,803

Market risk
The Company is exposed to the risk that the fair value of future cash flows of its financial instruments will fluctuate because of changes in market prices. Market risk includes two types of risk: interest rate risk and currency risk.

Interest rate risk
The Company has a mixture of fixed and floating interest rate debt instruments and manages the variability in cash flows resulting from changes in interest rates by using derivative financial instruments. The Company minimises the volatility in its financial statements through the adoption of the hedge accounting provisions permitted under IFRS 9. The interest rate exposure resulting from the Company's borrowings and Term Advances to Mitchells & Butlers Retail Limited is fixed, either as a result of the notes themselves being issued at fixed interest rates, or through a combination of floating rate notes against which 100% effective interest rate swaps are held, which are eligible for hedge accounting.

A number of the Company's financial instruments have LIBOR as their interest reference rate. During the period, the Company completed the necessary amendments to transition its financing arrangements in advance of the discontinuation of LIBOR as a floating reference rate, replacing LIBOR with a Sterling Overnight Index Average (SONIA) based rate in respect of Sterling and a Secured Overnight Financing Rate (SOFR) based rate in respect of US Dollars. The amendments in respect of the securitised bonds were agreed by the Bondholders through a formal consent solicitation process and bilateral agreements were reached with securitised swap and liquidity facility providers
(using amended reference rates consistent with those agreed under the bonds).

11. Financial Instruments (continued)

Interest rate risk (continued)
All Sterling-based facilities and agreements referencing Sterling LIBOR transitioned in the period and now reference SONIA, plus a credit adjustment spread of 11.93 basis points to maintain an economically equivalent position, for periods commencing on or after 1 January 2022. The facilities currently referencing US Dollar LIBOR will transition to SOFR plus 26.161 basis points for periods commencing on or after 1 July 2023. The liquidity facility and the unsecured committed facility were arranged on a SONIA basis in the prior period, so did not require any further amendment.

Foreign exchange risk
The Company faces currency risk in two main areas:

At issuance of the Class A3N floating rate notes, the Company entered into a cross currency interest rate swap to manage the foreign currency exposure resulting from both the US$ principal and interest elements of the notes. The A3N notes form part of the securitised debt.

Further to the step-up on the A3N notes on 15 December 2010, the Company has additional foreign currency exposure as a result of the increase in US$ interest payable and similar charges. The Company can partially mitigate this additional risk by demanding US$ receipts from Mitchells & Butlers Retail Limited under some of the securitisation agreements, and therefore the Company is not considered to have a material exposure to currency risk.
The Company has no significant profit and loss exposure as a result of retranslating monetary assets and liabilities at different exchange rates. As the Company has no material exposure to movements in interest or exchange rates, no sensitivity analysis has been disclosed.

Funding and liquidity risk
The securitised notes issued by the Company (and associated liquidity facility). The terms of the securitisation and other credit facilities across the Group contain various financial covenants. Details of covenant amendments and waivers obtained as a result of the Covid-19 pandemic to mitigate the risk to liquidity are provided in the Group accounts and in the going concern review on pages 9 to 10. Compliance with these covenants is monitored by Group Treasury.

Maturity of cash flows.
The maturity table below details the contractual undiscounted cash flows (both principal and interest), based on the prevailing period end interest and exchange rates, for the Company's financial liabilities, after taking into account the effect of interest rate and currency swaps and assumes no early redemption in respect of any loan notes. As such these amounts will not always reconcile to amounts disclosed in the Company Balance Sheet.

	Within 1 year £000	1 to 2 years £000	2 to 3 years £000	3 to 4 years £000	4 to 5 years £000	More than 5 years £000	Total £000
24 September 2022							
Securitised debt – loan notes	**(209,217)**	**(203,384)**	**(203,288)**	**(203,623)**	**(203,849)**	**(894,316)**	**(1,917,677)**
Derivative financial liabilities (settled net)	**(354)**	**(5,360)**	**(4,735)**	**(4,136)**	**(3,495)**	**(11,971)**	**(30,051)**
Derivative financial asset receipts	**29,590**	**28,449**	**28,840**	**29,283**	**29,739**	**37,850**	**183,751**
Derivative financial asset payments	**(20,694)**	**(19,940)**	**(19,900)**	**(19,896)**	**(19,884)**	**(24,843)**	**(125,157)**
Fixed rate: Securitised debt	**(200,675)**	**(200,235)**	**(199,083)**	**(198,372)**	**(197,489)**	**(893,280)**	**(1,889,134)**
25 September 2021							
Securitised debt – loan notes	(167,055)	(169,266)	(171,677)	(173,951)	(176,493)	(990,586)	(1,849,028)
Derivative financial liabilities (settled net)	(37,200)	(34,510)	(31,863)	(28,651)	(25,619)	(109,457)	(267,300)
Derivative financial asset receipts	18,571	19,305	20,068	20,860	21,689	52,025	152,518
Derivative financial asset payments	(15,299)	(15,886)	(16,497)	(17,793)	(17,793)	(42,614)	(125,882)
Fixed rate: Securitised debt	(200,983)	(200,357)	(199,969)	(199,535)	(198,216)	(1,090,632)	(2,089,692)

11. Financial Instruments (continued)

Cash flow hedges
Changes in the fair value of cash flow hedges are recognised directly in the hedging reserve in equity to the extent that the hedges are effective. The cash flow hedges have been assessed as being highly effective during the financial period and are expected to remain highly effective over the remaining contract lives. The following amounts have been recognised during the period:

	24 September 2022 £000	25 September 2021 £000
Gains arising during the period	**32,465**	(19,164)
Reclassification adjustments for gains included in profit or loss	**(31,440)**	16,054
Net movement in cash flow hedges recognised in equity	**1,025**	(3,110)

Cash flow hedges – securitised borrowings and Term Advances
The Company holds 16 interest rate swaps.

Ten of these interest rate swaps are held with external third parties and have a nominal value of £749m (2021 £803m). These are designated as a hedge of the cash flow interest rate risk of £749m (2021 £803m) of the Company's floating rate borrowings, comprising the A1N, A3N, A4, AB, C2 and D1 loan notes.

The cash flows occurred quarterly, receiving a floating rate of interest based on SONIA and paying a fixed rate of 4.81% (2021 4.82%). The contract maturity dates match those of the hedged item. No hedge ineffectiveness on the interest rate swaps was recognised in profit or loss in the current or prior period.

The remaining six interest rate swaps are held with Mitchells & Butlers Retail Limited and have a nominal value of £749m (2021 £803m). These are designated as a hedge of the cash flow and principal interest rate risk of £749m (2021 £803m) of the Company's floating rate Term Advances, comprising the A1N, A3N, A4, AB, C2 and D1 Term Loans. The cash flows occurred quarterly, receiving a fixed rate of interest of 4.82% (2021 4.84%) and paying a floating rate of interest based on SONIA. The contract maturity dates match those of the hedged item. No hedge ineffectiveness on the interest rate swaps was recognised in profit or loss in the current or prior period.

The Company holds one cross currency interest rate swap contract with an external third party with a nominal value of £109m (2021 £124m) designated as a swap of the cash flow interest rate and currency risk of £109m (2021 £124m) of the Group's A3N floating rate $27m (2021 $207m) borrowings. The cash flows occurred quarterly receiving a floating rate of interest based on US$ SONIA and paying a floating rate of interest based on UK SONIA. The ineffectiveness on the cross currency swaps due to foreign currency basis spread was immaterial in both the current and prior period.

The cash flows arising from interest rate swap positions on the same counterparty may be settled as a net position. The cross currency interest rate swap is held under a separate agreement and cash movements for this instrument are settled individually. In the event of default, the interest rate swaps and cross currency swaps with counterparty B may be settled net as shown below.

Mitchells & Butlers Finance plc

Notes to the Financial Statements for the 52 weeks ended 24 September 2022 (continued)

11. Financial Instruments (continued)

24 September 2022

	Gross position £000	Positions netted in balance sheet £000	Balance sheet position £000	Positions that could be net in balance sheet but are not £000	Overall net exposure £000
Counterparty A – interest rate swaps	**(11,826)**	**-**	**(11,826)**	**-**	**(11,826)**
Counterparty B – interest rate swaps	**(15,860)**	**-**	**(15,860)**	**15,860**	**-**
Intercompany – interest rate swaps	**27,979**	**-**	**27,979**	**-**	**27,979**
Net interest rate swaps	**293**	**-**	**293**	**15,860**	**16,153**
Counterparty B – cross currency swap liability	**(109,860)**	**109,860**	**-**	**-**	**-**
Counterparty B – cross currency swap asset	**168,476**	**(109,860)**	**58,616**	**(15,860)**	**42,756**
Net cross currency swap	**58,616**	**-**	**58,616**	**(15,860)**	**42,756**
Total	**58,909**	**-**	**58,909**	**-**	**58,909**

25 September 2021

	Gross position £000	Positions netted in balance sheet £000	Balance sheet position £000	Positions that could be net in balance sheet but are not £000	Overall net exposure £000
Counterparty A – interest rate swaps	(85,532)	-	(85,532)	-	(85,532)
Counterparty B – interest rate swaps	(123,177)	-	(123,177)	27,501	(95,676)
Intercompany – interest rate swaps	207,803	-	207,803	-	207,803
Net interest rate swaps	(906)	-	(906)	27,501	26,595
Counterparty B – cross currency swap liability	(125,359)	125,359	-	-	-
Counterparty B – cross currency swap asset	152,860	(125,359)	27,501		-
Net cross currency swap	27,501	-	27,501	(27,501)	-
Total	26,595	-	26,595	-	26,595

11. Financial Instruments (continued)

The fair value and carrying value of financial assets and liabilities by category is as follows:

	24 September 2022		25 September 2021	
	Book Value £000	Fair value £000	Book value £000	Fair Value £000
Financial assets at amortised cost:				
- Cash and cash equivalents	**5,361**	**5,361**	5,320	5,320
- Other receivables	**1,412**	**1,412**	1,464	1,464
- Amounts owed to group undertakings	**97**	**97**	37	37
Term Advances	**1,388,466**	**1,388,466**	1,498,634	1,498,634
Financial assets – derivatives:				
- External currency swaps	**58,616**	**58,616**	27,501	27,501
Intercompany interest rate swaps	**27,979**	**27,979**	207,803	207,803
Financial liabilities at amortised cost:				
Borrowings	**(1,447,459)**	**(1,162,960)**	(1,526,340)	(1,491,871)
- Amounts owed to group undertakings	**(1,387)**	**(1,387)**	(1,462)	(1,462)
- Accrued expenses	**(63)**	**(63)**	(68)	(68)
Financial liabilities – derivatives:				
- External interest rate swaps	**(27,686)**	**(27,686)**	(208,709)	(208,709)
	5,336	**289,835**	4,180	38,649

The various tranches of the secured loan notes have been valued with reference to the period end quoted offer prices of the corresponding tranches of secured debt in the Group. The fair value of the interest rate swaps is the estimated amount the Company could expect to pay or receive on termination of the agreement. These amounts are based on the valuations of the corresponding external swaps in the Group which are based on the quotations from counterparties and take into consideration interest rates prevailing at the balance sheet date. Other financial assets and liabilities are either short term in nature or their book values approximate to fair values.

Derivative financial instruments

IFRS 13 Financial Instruments requires the Company's derivative financial instruments to be disclosed at fair value and categorised in three levels according to the inputs used in the calculation of their fair value:
- Level 1 instruments use quoted prices as the input to fair value calculations;
- Level 2 instruments use inputs, other than quoted prices, that are observable either directly or indirectly; and
- Level 3 instruments use inputs that are unobservable.

The cash flow hedges are all classified as Level 2 being fair value measurements derived from inputs other than quoted prices that are observable for assets or liabilities.

The fair value of the derivative financial instruments as at 24 September 2022 are disclosed below:

	Total assets		**Total liabilities**	
	Less than one year £000	**More than one year £000**	**Less than one year £000**	**More than one year £000**
Cash flow hedges				
External interest rate swaps			**(354)**	**(27,332)**
External cross currency swaps	**3,504**	**55,112**		
Intercompany interest rate swaps	**440**	**27,538**		
	3,944	**82,650**	**(354)**	**(27,332)**

11. Financial Instruments (continued)

At 25 September 2021, the fair value of the derivative financial instruments were:

	Total assets		Total liabilities	
	Less than one year £000	More than one year £000	Less than one year £000	More than one year £000
Cash flow hedges				
External interest rate swaps			(37,200)	(171,509)
External cross currency swaps	40	27,461		
Intercompany interest rate swaps	37,299	170,504		
	37,339	197,965	(37,200)	(171,509)

12. Deferred tax

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

	24 September 2022 £000	25 September 2021 £000
Deferred tax asset:		
Derivatives	**24**	280
Deferred tax asset	**24**	280

13. Equity

Share capital

Allotted, called up and fully paid	**24 September 2022**		25 September 2021	
	No.	**£**	No.	£
Ordinary share of £1 each- fully paid	**2**	**2**	2	2
Ordinary share of £1 each -25% paid	**49,998**	**49,998**	49,998	49,998
	50,000	**50,000**	50,000	50,000

Hedging reserve
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged future cash flows.

Retained earnings
The Company's ability to distribute these reserves by way of dividends is restricted by the securitisation covenants (see note 10).

14. Ultimate parent undertaking

The Company's immediate parent is Mitchells & Butlers Retail 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.