

# Mitchells & Butlers Finance plc

## Annual Report and Financial Statements

for the 52 weeks ended 25 September 2021

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# **Mitchells & Butlers Finance plc**

## **Strategic Report for the 52 weeks ended 25 September 2021**

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 25 September 2021. The comparative period is for the 52 weeks ended 26 September 2020.

### **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 2021 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**

The Directors have acted in a way that they considered, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole and in doing so have given regard, amongst other matters, to the following considerations in the decisions taken during the financial period ended 25 September 2021:

- The likely consequences of any decision in the long term;
- The need to foster the Company's business relationships with suppliers and others;
- The impact of the Company's operations on the community and environment; and
- The desirability for high standards of business conduct.

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

In carrying out these functions, the Board had regard to those stakeholders which it had identified as being of significant importance. These are: the Company's shareholders, those employees of the Mitchells & Butlers Group who were likely to be affected by the activities of the Company (including their job security and entitlements in terms of pay, pensions and other benefits), suppliers to the Company, whether they are external to the Mitchells & Butlers Group or within that group, governmental authorities such as HMRC and regulatory bodies, and those specific entities or individuals who are likely to be affected by the outcome of the relevant matter falling for consideration on a case-by-case basis. Due to the fact that the Board includes representatives of the Executive Committee and Leadership group of Mitchells & Butlers plc and its wider Group, many of the considerations dealt with by the Board of the Company in addressing its responsibilities under Section 172, and in taking into account the interests of stakeholders both externally to the Mitchells & Butlers Group and within that Group, are informed by the manner in which those matters are dealt with by the parent company and the wider Group. Notwithstanding this, the Board nonetheless seeks to discharge its responsibilities on a standalone company basis but, for obvious reasons, will take into account and weigh up in that assessment process the manner in which similar matters are dealt with on a Group basis.

# **Mitchells & Butlers Finance plc**

## **Strategic Report for the 52 weeks ended 25 September 2021 (continued)**

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

As the Company has a very limited degree of relationships with entities or persons outside its own group, the principal stakeholders were the shareholder, third party investors that hold the secured loan notes (as described in the Directors' report) and governmental and regulatory authorities.

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

Major matters considered by the Board during the year related primarily to the effect on the Company's business and its suppliers, of the continued impact of the Covid-19 pandemic on the group's trading sites and the subsequent reopening of the overwhelming majority of those sites, the effect of the financial support received from the UK Government under its various Coronavirus business support schemes and the assessment of the Company's financial position and its ability to continue to trade, incur credit, make scheduled debt repayments and pay other creditors. This financial assessment led to the re-negotiation of various covenants and other terms in relation to the group's securitisation arrangements.

The Board had the benefit of a specific briefing from its external legal advisers on the duties and responsibilities of the Directors in relation to the challenges and unusual operating circumstances which were caused by the Covid-19 pandemic in FY 2020 and continued to keep that advice in mind throughout FY 2021, supplemented by further bespoke briefings by those legal advisers on the specific issues relating to the Company's financial position.

In considering the implications of the Covid-19 pandemic, the Board looked not only at the position and prospects of the Company, but also took into consideration the wider Mitchells & Butlers Group as a whole, in relation to the financing arrangements and the need to comply with the Company's obligations of its securitisation arrangements.

In reaching its decisions, the Board was mindful of the need to seek to preserve the integrity of the Company's business so that it could trade successfully again after the impact of the Covid-19 pandemic had passed but that it would need to allocate its resources in such a way as to ensure creditors' interests and the interests of other stakeholders were not prejudiced.

Board papers set out the rationale for the proposals and the relevant decisions were made after discussion amongst the Board members with appropriate legal, accounting, HR and treasury input. The processes implemented by the Board included formal meetings to consider key developments as well as the provision, refreshed during the financial year, of training to Directors in relation to their responsibilities.

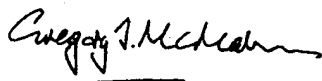
Specific consideration was given in the decision-making processes implemented by the Board to how the manner in which the Company operated, and the specific proposals it was asked to consider, aligned to its strategic goals. These goals, which in effect constitute the Company's principal activities as described in the business review on page 1, remain the agreed purpose of the Company as confirmed by the Board.

The Board also confirmed that, in discharging its responsibilities for management, supervision and control of the Company's business and its affairs, it would seek to align to the Mitchells & Butlers Group PRIDE Values of Passion, Respect, Innovation, Drive and Engagement as set out at page 23 of the Mitchells & Butlers plc Annual Report and Accounts 2021.

### **Future Developments**

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

Approved by the Board on 14 December 2021 and signed on its behalf by:



G J McMahon  
Director

# Mitchells & Butlers Finance plc

## Directors' Report for the 52 weeks ended 25 September 2021

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 25 September 2021. The comparative period is for the 52 weeks ended 26 September 2020.

### Results

Finance income for the period was £102,335,000 (2020 £107,216,000) with profit for the period before taxation of £1,816,000 (2020 £433,000). Taxation credited against the profit for the period was £260,000 (2020 £nil) leaving a profit after tax of £2,076,000 (2020 £433,000).

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

### Dividends

No dividends were declared or paid during the period (2020 £nil). The Directors are proposing a final dividend of £nil (2020 £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 25 September 2021 is £nil (26 September 2020 £9m).

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 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 Covid-19 pandemic, material trading restrictions were imposed on the Mitchells and Butlers plc Group and the sector, including mandated closure for over three months. Mitigating action was swiftly taken and this included agreeing revised arrangements in the secured financing structure with the consent of the controlling creditor of the securitisation and the securitisation Trustee. As a result a series of amendments and waivers to the securitisation covenants were obtained, as detailed in the Mitchells & Butlers plc Annual Report and Accounts 2020.

During the current period a series of further amendments and waivers to the securitisation covenants were obtained as follows:

- a further waiver of, and amendment to, the 30 day suspension of business provision, where the suspension has arisen because of the ongoing enforced closure during the Covid-19 pandemic;
- a waiver of the two quarter look-back debt service coverage ratio test up until April 2022 and a waiver of the four quarter look-back debt service coverage ratio test up until July 2022, with both tests then performed at revised lower levels until full reinstatement in January 2023; and
- a waiver to facilitate drawings of up to £110m in total under the Liquidity Facility providing the securitisation Group with additional facilities in order to meet payments of principal and interest, provided such drawings are repaid in full at the end of December 2021.

# Mitchells & Butlers Finance plc

## Directors' Report for the 52 weeks ended 25 September 2021 (continued)

### Going concern

The financial statements have been prepared on a going concern basis, but with material uncertainty arising from the possible further impact of Covid-19. A full assessment of the going concern statement has been provided in note 1. 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 Securitisation Group have sufficient resources to continue in operational existence for a period of at least twelve months from the date of approval of these financial statements. Accordingly, the financial statements continue to be prepared on the going concern basis.

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

Given the prevailing high level of unpredictability and uncertainty concerning the future incidence of the pandemic, the Directors are unable to conclude that the prospect of either a further lockdown or of material trading restrictions being imposed on the Group and the Company is remote. Accordingly, the financial statements continue to be prepared on the going concern basis, but with material uncertainty arising from the possible further impact of Covid-19 on the economy and the hospitality sector.

### Financial risk and treasury management

Details of the Company's policy on addressing risks are given on pages 29 to 30 and details about financial instruments are shown in note 11. The financial risks faced by the Company are identified and managed by the Securitisation Group's Treasury department.

### Internal control and risk management processes

The Securitisation 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  
A W Vaughan  
S K Martindale  
L J Miles  
G J McMahon

### 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

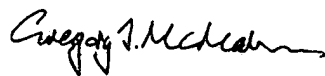
The Directors who held office as at the date of approval of this Directors' report confirm that so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and that each Director has taken all the steps that they ought to have taken as a Director to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

A formal audit tender process was completed during the period, with KPMG LLP appointed as auditor to replace Deloitte LLP who will resign following completion of the FY 2021 audit.

Approved by the Board on 14 December 2021 and signed on its behalf by:



G J McMahon  
Director

## **Mitchells & Butlers Finance plc**

### **Directors' Responsibilities Statement**

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

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

### **1. Opinion**

In our opinion the financial statements of Mitchells & Butlers Finance plc (the 'company'):

- give a true and fair view of the state of the company's affairs as at 25 September 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 14.

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

### **2. Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

We draw attention to note 1 in the financial statements, which indicates that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern.

The Company acts as a financing Company for the Securitisation Group of Mitchells & Butlers plc (the 'Group') and is reliant on debt repayments from Mitchells & Butlers Retail Limited. Its principle activities are the issue of secured loan notes and the onward lending of the proceeds to other companies within the Group.

There are covenants attached to the secured loan notes and as part of the revised arrangements within the securitisation it was agreed to waive a number of covenants across the securitised borrowings till Q2 2022.

Management has performed a reverse stress test on the forecast and identified that an average decline in sales of 7.4% or more, prior to any mitigating actions, would result in a breach in covenants for securitised borrowings in Q4 2022. As explained in Note 1, management has determined that there is a high level of unpredictability and uncertainty concerning the future incidence of the pandemic. Accordingly, the Directors are unable to conclude that the prospect of either such a further lockdown or of material restrictions being imposed is remote. A breach of covenants would lead to the need for the Group to negotiate further waivers or renegotiate its borrowing facilities.

As such a material uncertainty exists which 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. In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- using modelling specialists to perform testing on the mechanical accuracy of the model used to prepare the Group's cash flow forecast;
- considering the consistency of management's forecasts with other areas of the audit,
- challenging the key assumptions within the going concern assessment. We have challenged with reference to the historical trading performance, current trading uncertainty, market expectations, Government announcements and peer comparison;
- obtaining an understanding of the financing facilities available to the Group, included understanding repayment terms and covenant definitions;
- assessing the impact of reverse stress testing on the Group's funding position and covenant calculations, including the appropriateness of performance recovery assumptions;
- assessing the appropriateness of risk factors disclosed in the Company's going concern statement and the financial impact of those risk factors; and
- challenging the sufficiency of the Company's disclosures over the going concern basis and material uncertainty arising; and
- reviewing the guarantee signed on behalf of Mitchells & Butlers plc which states that the Directors of Mitchells & Butlers plc 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.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

### **4. Summary of our audit approach**

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**Key audit matters**

The key audit matters that we identified in the current year were:





- Going concern (see material uncertainty relating to going concern section)
- Valuation of derivative financial instruments

Within this report, key audit matters are identified as follows:

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

	 Newly identified  Increased level of risk  Similar level of risk  Decreased level of risk
<b>Materiality</b>	The materiality that we used in the current year was £5.5m which was determined on the basis of 0.5% of external borrowings capped at 95% of the Mitchells & Butlers plc group materiality.
<b>Scoping</b>	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
<b>Significant changes in our approach</b>	No significant changes in our approach have occurred between the year ended 26 September 2020 and 25 September 2021.

### 5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

#### 5.1 Valuation of derivative financial instruments

<b>Key audit matter description</b>	<p>The Company has derivative financial instrument assets of £235m (2020 £342m) and derivative financial instruments liabilities of £209m (2020 £297m) as at 25 September 2021 and are highly material to the Company. These are carried at fair value on the balance sheet and hedge foreign exchange and interest rate fluctuations.</p> <p>The fair value of the derivatives, classified as level 2, are calculated based on the present value of the estimated future cash on a risk-free basis the credit risk adjustments. This is a key audit matter due to the quantum of the balance and the requirements for hedge documentation and hedge effectiveness testing to be prepared by management. Further details are set out in the accounting policies note and note 11 to the financial statements.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>We obtained management's valuations of the derivative financial instruments and with the involvement of our financial instrument specialists we:</p> <ul style="list-style-type: none"> <li>• Performed an independent valuation on a risk-free basis for each type of derivative instrument and compared to the Company's risk-free valuation;</li> <li>• Performed an independent assessment of the rationale for the Company not making credit risk adjustments; and</li> <li>• Assessed the fair value hierarchy of the instruments.</li> <li>•</li> </ul>
<b>Key observations</b>	The valuations associated with the derivative financial instruments are within an appropriate range.

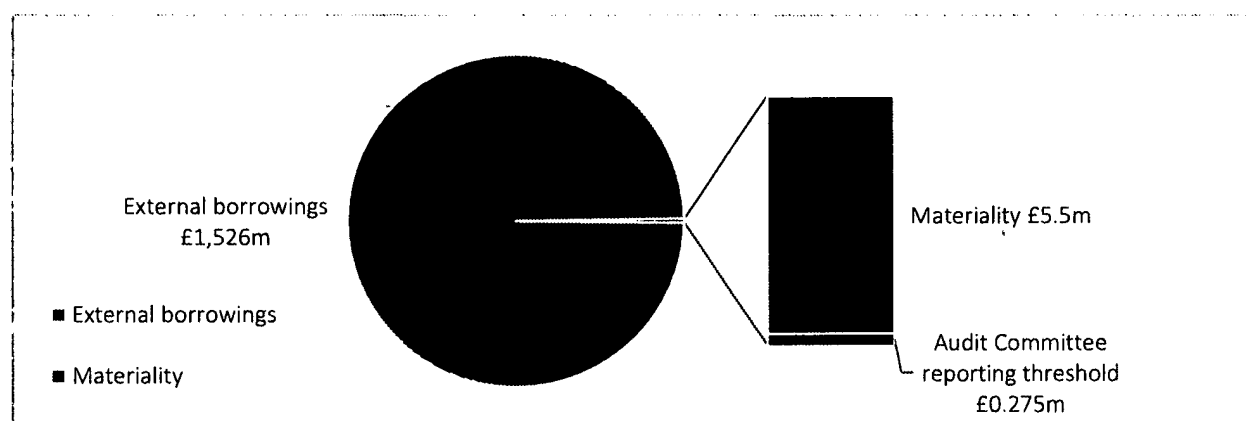
# Independent Auditor's Report to the members of Mitchells & Butlers Finance plc (continued)

## 6. Our application of materiality

### 6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Materiality</b>	£5.5m (2020 £5.6m)
<b>Basis for determining materiality</b>	0.5% of external borrowings (2020 0.5%) capped at 95% of the Mitchells & Butlers plc group materiality.
<b>Rationale for the benchmark applied</b>	<p>External borrowings are the main driver of the entity value as it is a finance Company and therefore it is appropriate to use this as the basis of materiality.</p> <p>When documenting materiality, as the Company is part of the Mitchells &amp; Butlers plc group, we also considered that this materiality is appropriate for the consolidation of this set of financial statements to the group's results.</p>



### 6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2021 audit (2020 70%). In determining performance materiality, we considered the following factors:

- our risk assessment, including our assessment of the Company's overall control environment; and
- our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

### 6.3. Error reporting threshold

We agreed with the directors that we would report to them all audit differences in excess of £275,500 (2020 £280,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## 7. An overview of the scope of our audit

### 7.1. Scoping

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

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

### **8. Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### **9. Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **10. Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **11. Extent to which the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

#### **11.1. Identifying and assessing potential risks related to irregularities**

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, company secretary and directors about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team involving relevant internal specialists, including financial instruments regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

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

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

### **11.2. Audit response to risks identified**

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

### **12. Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

### **13. Matters on which we are required to report by exception**

#### **13.1. Adequacy of explanations received and accounting records**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, 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.

We have nothing to report in respect of these matters.

#### **13.2. Directors' remuneration**

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

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

### **14. Other matters which we are required to address**

#### **14.1. Auditor tenure**

We were appointed by the Company at the AGM on 10 February 2011 to audit the financial statements for the 52 weeks ending 24 September 2011 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is eleven years, covering the financial periods ending 24 September 2011 to 25 September 2021.

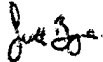
#### **14.2. Consistency of the audit report with the additional report to the audit committee**

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

### **15. Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scott Bayne FCA (Senior statutory auditor)



For and on behalf of Deloitte LLP  
Statutory Auditor  
Leeds, UK

14 December 2021

**Mitchells & Butlers Finance plc**  
**Income statement for the 52 weeks ended 25 September 2021**

		<b>52 weeks ended 25 September 2021 £000</b>	<b>52 weeks ended 26 September 2020 £000</b>
	<b>Note</b>		
Finance income	4	102,335	107,216
Finance costs	5	<u>(100,519)</u>	<u>(106,783)</u>
<b>PROFIT BEFORE TAXATION</b>		<b>1,816</b>	<b>433</b>
 Tax	 6	 260	 -
<b>PROFIT FOR THE PERIOD</b>		<b><u>2,076</u></b>	<b><u>433</u></b>

The above results are derived from continuing operations.

The notes on pages 17 to 35 form an integral part of these financial statements.

**Mitchells & Butlers Finance plc**  
**Statement of Comprehensive Income**  
**for the 52 weeks ended 25 September 2021**

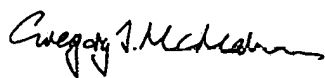
	Note	52 weeks ended 25 September 2021 £000	52 weeks ended 26 September 2020 £000
<b>PROFIT FOR THE PERIOD</b>		<b>2,076</b>	<b>433</b>
<b>Items that may be reclassified subsequently to profit and loss:</b>			
Cash flow hedges:			
-(Losses)/gains arising during the period	11	(19,164)	(6,991)
-Reclassification adjustments for items included in profit or loss	11	16,054	9,628
Tax relating to items that may be reclassified	6	658	(488)
		<b>(2,452)</b>	<b>2,149</b>
<b>TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE PERIOD</b>		<b>(376)</b>	<b>2,582</b>

The notes on pages 17 to 35 form an integral part of these financial statements.

**Mitchells & Butlers Finance plc**  
(Registration number: 04778667)  
**Balance sheet as at 25 September 2021**

		25 September 2021 £000	26 September 2020 £000
	Note		
<b>NON-CURRENT ASSETS</b>			
Derivative financial instruments	11	197,965	302,327
Deferred tax asset	12	280	-
Intercompany loan receivables	8	1,389,030	1,498,634
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,587,275</b>	<b>1,800,961</b>
<b>CURRENT ASSETS</b>			
Trade and other receivables	7	1,501	1,624
Derivative financial instruments	11	37,339	40,296
Cash and cash equivalents		5,320	31
Intercompany loan receivables	8	109,604	118,679
<b>TOTAL CURRENT ASSETS</b>		<b>153,764</b>	<b>160,630</b>
<b>TOTAL ASSETS</b>		<b>1,741,039</b>	<b>1,961,591</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	9	(1,530)	(3,868)
Corporation tax liability		-	(260)
Borrowings	10	(109,608)	(112,990)
Derivative financial instruments	11	(37,200)	(39,850)
<b>TOTAL CURRENT LIABILITIES</b>		<b>(148,338)</b>	<b>(156,968)</b>
<b>NET CURRENT ASSETS</b>		<b>5,426</b>	<b>3,662</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	10	(1,416,732)	(1,542,571)
Derivative financial instruments	11	(171,509)	(256,838)
Deferred tax liability	12	-	(378)
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>(1,588,241)</b>	<b>(1,799,787)</b>
<b>TOTAL LIABILITIES</b>		<b>(1,736,579)</b>	<b>(1,956,755)</b>
<b>NET ASSETS</b>		<b>4,460</b>	<b>4,836</b>
<b>EQUITY</b>			
Share capital	13	50	50
Hedging reserve	13	(840)	1,612
Retained earnings	13	5,250	3,174
<b>TOTAL EQUITY</b>		<b>4,460</b>	<b>4,836</b>

Approved by the Board and authorised for issue on 14 December 2021. They were signed on its behalf by:



G J McMahon  
Director

The notes on pages 17 to 35 form an integral part of these financial statements



**Mitchells & Butlers Finance plc**  
**Statement of changes in equity for the 52 weeks ended 25 September 2021**

	Share capital £000	Hedging reserve £000	Retained earnings £000	Total £000
<b>At 28 September 2019</b>	50	(537)	2,741	2,254
Profit for the period	-	-	433	433
Other comprehensive income	-	2,149	-	2,149
<b>Total comprehensive income</b>	-	2,149	433	2,582
<b>At 26 September 2020</b>	50	1,612	3,174	4,836
Profit for the period	-	-	2,076	2,076
Other comprehensive expense	-	(2,452)	-	(2,452)
<b>Total comprehensive (expense)/income</b>	-	(2,452)	2,076	(376)
<b>At 25 September 2021</b>	50	(840)	5,250	4,460

The notes on pages 17 to 35 form an integral part of these financial statements

## Mitchells & Butlers Finance plc

### Notes to the Financial Statements for the 52 weeks ended 25 September 2021

#### 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 2021 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 by the EU and are available to the public and may be obtained from the Company Secretary, Mitchells & Butlers plc, 27 Fleet Street, Birmingham B3 1JP.

##### Accounting reference date

The Company's accounting reference date is 30 September. The Company draws up its financial statements to the Saturday directly before or following the accounting reference date, as permitted by section 390 (3) of the Companies Act 2006. The period ended 25 September 2021 and the comparative period ended 26 September 2020 both include 52 trading weeks.

##### Going concern

The Directors have adopted the going concern basis in preparing these financial statements, but with material uncertainty arising from the possible further impact of Covid-19, after assessing the impact of identified principal risks and, in particular, the possible adverse impact on financial performance, specifically revenue and cash flows of the Securitisation Group.

As described in the Directors' report on page 3, the Company acts as a financing company for the Securitisation Group and is reliant on debt repayments from MAB Retail. The financing of the Securitisation Group is based on securitised debt which includes various covenants. Covenant amendments and waivers, as a result of Covid-19, are summarised on page 3 of the Directors' report.

##### Significant judgements and base case

These revised financial arrangements provide a stronger platform for the Securitisation Group to meet the uncertainty ahead, ensuring that liquidity is not expected to be a main concern during the going concern assessment period. The level of sales drives the EBITDA of MAB Retail, the main trading company within the Securitisation Group, which is a critical measure for covenant compliance tests. Following periods of enforced closure in response to the Covid-19 pandemic, substantially all of the Securitisation Group's sites have now been open for trading since May 2021. Since 'Freedom Day' in July 2021 this has been in an environment largely free of restrictions. Key judgements made by management in arriving at the level of future sales concern the depth, duration and continued recovery profile of the pandemic and therefore the level of sales that the Securitisation Group is able to achieve. To this end we assume that no further periods of mandated national or regional closure, or of material trading restrictions, will be enforced.

In reaching this assessment, the Directors have reviewed what they consider to be a plausible base case forecast scenario for the Securitisation Group. Sales are assumed to largely recover to FY19 levels, supported in H1 by the 12.5% VAT rates on food and non-alcoholic drink for the 6 months from 1 October 2021. Stripping out the VAT benefit, this assumes sales are 5% below pre-Covid levels through H1 before moving back in line with pre-Covid sales in H2. In future years sales through FY23 are assumed to be 4.5% up on pre-Covid levels, with a further 3% increase in FY24.

Operating margins in FY22 are assumed to be lower than those pre-Covid, with notable cost inflation across food and utilities, labour costs (additional pay increases for certain roles suffering from supply shortage and a 6.6% NLW increase impacting hourly pay) and increased non-pub costs. Whilst some reversion in utility costs is assumed after FY22, these still remain well ahead of pre pandemic levels.

Under the base case forecast, the Securitisation Group continues to remain profitable with no forecast breach of covenants.

## **Mitchells & Butlers Finance plc**

### **Notes to the Financial Statements for the 52 weeks ended 25 September 2021 (continued)**

#### **1. Accounting policies (continued)**

##### **Going concern (continued)**

###### *Reverse stress test*

The Securitisation Group has also undertaken reverse stress test modelling, being the identification of that level of downside forecast at which the business model becomes unsustainable for either solvency or liquidity reasons.

In examining vulnerabilities, management have considered the performance in the forecast case above and made an adjustment to reflect sales growth rates in FY22 at 7.4% lower than the forecast alongside further increased levels of utilities costs, cost of goods increases and NLW wage increases. Very limited mitigation action is assumed other than labour costs flexing to reflect the lower level of sales volumes and lower bonus awards. In this scenario, solvency breach first occurs in Q4 of FY22 under the securitised four quarter look-back test. There is no issue in respect of liquidity headroom, in that existing facilities remain sufficient.

In the absence of further lockdown or material restrictions being imposed, the Directors believe that it is unlikely that the Securitisation Group would experience sales shortfalls combined with cost increases, as set out in the reverse stress test, of a scale sufficient to result in a breach to its covenants over the review period. However, given the prevailing high level of unpredictability and uncertainty concerning the future incidence of the pandemic, the Directors are unable to conclude that the prospect of either such a further lockdown or of material restrictions being imposed is remote. As such a material uncertainty exists which may cast significant doubt over the Securitisation Group and Company's ability to trade as a going concern, in which case it may be unable to realise its assets and discharge its liabilities in the normal course of business. This uncertainty stems directly from the lack of forward visibility of potential restrictions that might be imposed in response to the pandemic such as enforced closure, minimum social distancing measures, limitations on party sizes, and reduced opening times, all of which have an impact on consumers' ability and willingness to visit pubs and restaurants and therefore the Securitisation Group's operational performance translating to sales and EBITDA that determine the continuing covenant compliance.

Any breach in covenants would result in a need for a further waiver of the banking covenants or for the Company to renegotiate its borrowing facilities, neither of which are fully within the Company's control. A breach of covenants would also result in the reclassification of £1,417m non-current borrowings to current borrowings. The Directors have, however, assessed that: given the strength of the underlying business including its property estate and brand portfolio; the Group's existing relationships with its main creditors; its historical success in obtaining covenant waivers and in raising finance; they believe that a waiver of the covenants or renegotiation of the facilities should be achievable.

###### *Going concern statement*

Notwithstanding the material uncertainty highlighted above, after due consideration the Directors have a reasonable expectation that the Securitisation Group, and therefore the Company, have sufficient resources to continue in operational existence for period of at least twelve months from the date of approval of these financial statements. Accordingly, the financial statements continue to be prepared on the going concern basis and do not include any adjustments that would result if the going concern basis were not appropriate.

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

The preparation of the financial statements requires management to make judgements, estimates and assumptions in the application of accounting policies that affect reported amounts of assets, liabilities, income and expense.

Estimates and judgements are periodically evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

There are no critical accounting judgements or key sources of estimated uncertainty in the current or prior period.

##### **Adoption of new and revised Standards**

In the current period, the Company has applied a number of amendments to IFRS Standards issued by the International Accounting Standards Board (the Board) that are mandatorily effective for an accounting period that begins on or after 1 January 2020.

##### **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.

## **Mitchells & Butlers Finance plc**

### **Notes to the Financial Statements for the 52 weeks ended 25 September 2021 (continued)**

#### **1. Accounting policies (continued)**

##### **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 \$1.37 (2020 £1 = US \$1.27). Foreign exchange differences arising on translation are recognised in the profit and loss account.

##### **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 Group that no payment is made for group tax relief received.

##### **Trade receivables**

Trade and other receivables are initially recognized at fair value. Items are subsequently carried at amortised cost less an allowance for any lifetime expected credit losses.

##### **Trade payables**

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

##### **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 and financial liabilities**

###### **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.

###### **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 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.

## Mitchells & Butlers Finance plc

### Notes to the Financial Statements for the 52 weeks ended 25 September 2021 (continued)

#### 1. Accounting policies (continued)

##### 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.

##### 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.

##### Recognition and measurement

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.

##### 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.

##### Impairment of financial assets

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.

##### Financial assets and financial liabilities

##### 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 that meet either of the following criteria are generally not recoverable when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the company, in full (without taking into account any collateral held by the company).

##### Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

##### Write-off policy

The 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.

## Mitchells & Butlers Finance plc

### Notes to the Financial Statements for the 52 weeks ended 25 September 2021 (continued)

#### 1. Accounting policies (continued)

##### Financial assets and financial liabilities (continued)

##### Credit-impaired financial assets (continued)

###### **Measurement and recognition of expected credit losses**

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date. For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the 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**

The company has financial liabilities relating to borrowings, for which the accounting policy is provided in note 10. 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.

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.

## Mitchells & Butlers Finance plc

### Notes to the Financial Statements for the 52 weeks ended 25 September 2021 (continued)

#### 1. Accounting policies (continued)

##### 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 and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the 'other gains and losses' line item

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 five Directors (2020 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 £1.1m (2020 £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 five (2020 five) of the Directors were members of the Group's defined contribution scheme, with one (2020 one) Directors also holding accrued service within the Group's defined benefit scheme. During the period four of the Directors were granted share options in the 'RSP' (Restricted Share Plan). In the prior period, four Directors were granted share options in the 'PRSP' (Performance Restricted Share Plan). Details of these schemes are disclosed in the Mitchells & Butlers plc Annual Report and Accounts 2021.

The highest paid Director received emoluments of £0.3m (2020 £0.3m), with Company contributions to defined contribution pension schemes of £nil (2020 £nil). This Director was also granted share options under the RSP scheme during the period. (Prior period PRSP.)

# Mitchells & Butlers Finance plc

## Notes to the Financial Statements for the 52 weeks ended 25 September 2021 (continued)

### 3. Auditor's remuneration

Fees paid to Deloitte LLP for the audit of the Company's accounts were £30,000 (2020 £15,000). Fees paid to Deloitte LLP and their associates for non-audit services are not disclosed for the Company since the Annual Report and Accounts 2021 of Mitchells & Butlers plc, the ultimate parent of Mitchells & Butlers Finance plc is required to disclose such fees on a consolidated basis. The fee is borne on behalf of the Company by another group company.

### 4. Finance income

	52 weeks ended 25 September 2021 £000	52 weeks ended 26 September 2020 £000
Intercompany interest on Term Advances	100,274	105,328
Liquidity facility fees recovered from Mitchells & Butlers Retail Limited	2,061	1,884
Bank interest receivable	-	4
Total finance income	<u>102,335</u>	<u>107,216</u>

### 5. Finance costs

	52 weeks ended 25 September 2021 £000	52 weeks ended 26 September 2020 £000
Securitised borrowings finance costs	98,458	104,934
Liquidity facility fees	2,061	1,848
Foreign exchange loss	-	1
Total finance costs	<u>100,519</u>	<u>106,783</u>

### 6. Taxation

	52 weeks ended 25 September 2021 £000	52 weeks ended 26 September 2020 £000
<b>Taxation – income statement</b>		
<b>Current taxation</b>		
UK corporation tax	(345)	82
Group relief received for nil payment	345	(82)
Amounts overprovided in prior periods	<u>260</u>	<u>-</u>
Total tax credit recognised in the income statement	<u>260</u>	<u>-</u>

The standard rate of corporation tax applied to the reported profit is 19% (2020 19%).

The tax in the income statement for the period is lower (2020 lower) than the standard rate of corporation tax in the UK.



**Mitchells & Butlers Finance plc**

**Notes to the Financial Statements for the 52 weeks ended 25 September 2021 (continued)**

**6. Taxation (continued)**

The differences are reconciled below:

	<b>52 weeks ended 25 September 2021 £000</b>	<b>52 weeks ended 26 September 2020 £000</b>
Profit before tax	<u>1,816</u>	<u>433</u>
Taxation charge at the UK standard rate of corporation tax of 19% (2020 19%)	<u>345</u>	<u>82</u>
Group relief	<u>(345)</u>	<u>(82)</u>
Adjustments in respect of prior periods	<u>260</u>	<u>-</u>
Total tax credit	<u>260</u>	<u>-</u>

**Factors which may affect future tax charges**

The Finance Act 2016 reduced the main rate of corporation tax from 19% to 17% from 1 April 2020. The Finance Act 2020 maintained the main rate of corporation tax rate at 19% from 1 April 2020, overriding the Finance Act 2016. The effect of these changes has been reflected in the closing deferred tax balances at 26 September 2020.

The Finance Act 2020 increased the main rate of corporation tax rate to 25% with effect from 1 April 2023. The effect of this change has been reflected in the closing deferred tax balances at 25 September 2021.

	<b>52 weeks ended 25 September 2021 £000</b>	<b>52 weeks ended 26 September 2020 £000</b>
<b>Taxation – other comprehensive income</b>		
Deferred tax:		
Items that may be reclassified subsequently to profit or loss:		
Cash flow hedges	<u>658</u>	<u>(488)</u>
Total tax credit/(charge) recognised in other comprehensive income	<u>658</u>	<u>(488)</u>

**7. Trade and other receivables**

	<b>25 September 2021 £000</b>	<b>26 September 2020 £000</b>
Amounts owed from group undertakings <sup>a</sup>	<u>37</u>	<u>37</u>
Prepayments	<u>1,464</u>	<u>1,587</u>
Total trade and other receivables	<u>1,501</u>	<u>1,624</u>

a. Includes £37,000 (2020 £37,000) relating to amounts owed by Group undertakings in respect of called up share capital not paid.

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.

# Mitchells & Butlers Finance plc

## Notes to the Financial Statements for the 52 weeks ended 25 September 2021 (continued)

### 8. Term Advances to Mitchells & Butlers Retail Limited

	25 September 2021 £000	26 September 2020 £000
Amounts falling due within one year	109,604	118,679
Amounts falling due after more than one year	1,389,030	1,498,634
Total Term Advances	1,498,634	1,617,313

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 25 September 2021 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 25 September 2021 £000	Principal outstanding at 26 September 2020 £000	Expected weighted average life <sup>b</sup> (years)
A1N	200,000	Floating	2011 to 2028	6.62 <sup>a</sup>	98,878	110,314	4 years
A2	550,000	Fixed – 5.58%	2003 to 2028	5.73	179,905	200,717	4 years
A3N	250,000	Floating	2011 to 2028	6.70 <sup>a</sup>	123,597	137,893	4 years
A4	170,000	Floating	2016 to 2028	6.38 <sup>a</sup>	116,102	128,098	4 years
AB	325,000	Floating	2020 to 2032	6.29 <sup>a</sup>	304,769	318,399	7 years
B1	350,000	Fixed – 5.98%	2003 to 2023	6.13	46,365	68,976	1 years
B2	350,000	Fixed – 6.02%	2015 to 2028	6.13	269,979	284,438	5 years
C1	200,000	Fixed – 6.48%	2029 to 2030	6.57	200,000	200,000	8 years
C2	50,000	Floating	2033 to 2034	6.48 <sup>a</sup>	50,000	50,000	12 years
D1	110,000	Floating	2034 to 2036	6.69 <sup>a</sup>	110,000	110,000	14 years
	2,555,000				1,499,595	1,608,835	

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 25 September 2021 interest and margin is receivable on the floating rate Term Advances as follows:

Tranche	Interest	Margin
A1N	3 month LIBOR	0.46%
A3N	3 month LIBOR	0.46%
A4	3 month LIBOR	0.59%
AB	3 month LIBOR	0.61%
C2	3 month LIBOR	1.89%
D1	3 month LIBOR	2.14%

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

	25 September 2021 £000	26 September 2020 £000
Principal outstanding at start of period	1,608,835	1,698,439
Principal repaid during the period	(109,240)	(89,604)
Principal outstanding at end of period	1,499,595	1,608,835
Deferred issue costs	(3,364)	(4,001)
Accrued interest	2,403	12,479
Carrying value at end of period	1,498,634	1,617,313

**Mitchells & Butlers Finance plc**

**Notes to the Financial Statements for the 52 weeks ended 25 September 2021 (continued)**

**9. Trade and other payables**

	<b>25 September 2021 £000</b>	<b>26 September 2020 £000</b>
Accrued expenses	68	60
Amounts owed to group undertakings <sup>a</sup>	<u>1,462</u>	<u>3,808</u>
<b>Total trade and other payables</b>	<b><u>1,530</u></b>	<b><u>3,868</u></b>

a. Amounts owed to fellow subsidiary undertakings are non-interest bearing and repayable on demand.

**10. Borrowings**

	<b>25 September 2021 £000</b>	<b>26 September 2020 £000</b>
<b>Amounts falling due within one year</b>		
Securitised debt	109,608	103,628
Liquidity facility	<u>-</u>	<u>9,362</u>
	<b><u>109,608</u></b>	<b><u>112,990</u></b>
<b>Amounts falling due after more than one year:</b>		
Securitised debt	<u>1,416,732</u>	<u>1,542,571</u>
	<b>25 September 2021 £000</b>	<b>26 September 2020 £000</b>
<b>Securitised debt - maturity profile</b>		
Amounts falling due within one year	<u>109,608</u>	<u>112,990</u>
Amounts falling due after more than one year:		
Between one and two years	142,170	151,981
Between two and five years	389,704	368,620
After five years	<u>884,858</u>	<u>1,021,970</u>
<b>Total non-current borrowings</b>	<b><u>1,416,732</u></b>	<b><u>1,542,571</u></b>
<b>Total securitised borrowings</b>	<b><u>1,526,340</u></b>	<b><u>1,655,561</u></b>

**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.

During the prior period, and as a result of the Covid-19 pandemic, material trading restrictions were imposed on the Group and the sector, including mandated closure for over three months. Mitigating action was swiftly taken and this included agreeing revised arrangements in the secured financing structure with the consent of the controlling creditor of the securitisation and the securitisation trustee. As a result, a series of amendments and waivers to the securitisation covenants were obtained, as detailed in the Annual Report and Accounts 2020. During the current period a series of further amendments and waivers to the securitisation covenants were obtained as described in the going concern review in the Director's report.

# Mitchells & Butlers Finance plc

## Notes to the Financial Statements for the 52 weeks ended 25 September 2021 (continued)

### 10. Borrowings (continued)

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 25 September 2021 £000	Principal outstanding at 26 September 2020 £000	Expected weighted average life <sup>b</sup> (years)
A1N	200,000	Floating	2011 to 2028	6.61 <sup>a</sup>	98,878	110,314	4 years
A2	550,000	Fixed – 5.57%	2003 to 2028	5.72	179,905	200,717	4 years
A3N <sup>c</sup>	250,000	Floating	2011 to 2028	6.69 <sup>a</sup>	123,597	137,893	4 years
A4	170,000	Floating	2016 to 2028	6.37 <sup>a</sup>	116,102	128,098	4 years
AB	325,000	Floating	2020 to 2032	6.28 <sup>a</sup>	304,769	318,399	7 years
B1	350,000	Fixed – 5.97%	2003 to 2023	6.12	46,365	65,615	1 years
B2	350,000	Fixed – 6.01%	2015 to 2028	6.12	269,979	282,408	5 years
C1	200,000	Fixed – 6.47%	2029 to 2030	6.56	200,000	200,000	8 years
C2	50,000	Floating	2033 to 2034	6.47 <sup>a</sup>	50,000	50,000	12 years
D1	110,000	Floating	2034 to 2036	6.68 <sup>a</sup>	110,000	110,000	14 years
	<u>2,555,000</u>				<u>1,499,595</u>	<u>1,603,444</u>	

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 £27,715,000 (2020 £43,945,000)

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 LIBOR	0.45%
A3N	3 month LIBOR	0.45%
A4	3 month LIBOR	0.58%
AB	3 month LIBOR	0.60%
C2	3 month LIBOR	1.88%
D1	3 month LIBOR	2.13%

The overall cash interest rate payable on the loan notes is 6.3% (2020 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 25 September 2021, Mitchells & Butlers Retail Limited had cash and cash equivalents of £66m (2020 £63m) and short-term investments of £nil (2020 £nil), which were governed by the covenants associated with the securitisation. Of these amounts £1m (2020 £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.

## Mitchells & Butlers Finance plc

### Notes to the Financial Statements for the 52 weeks ended 25 September 2021 (continued)

#### 10. Borrowings (continued)

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

	25 September 2021 £000	26 September 2020 £000
Principal outstanding at start of period	1,647,389	1,753,087
Principal repaid during the period	(103,849)	(94,995)
Exchange on translation of dollar loan notes	(16,230)	(10,703)
Principal outstanding at end of period	<u>1,527,310</u>	<u>1,647,389</u>
Deferred issue costs	(3,371)	(4,007)
Accrued interest	<u>2,401</u>	<u>2,817</u>
Carrying value at end of period	<u>1,526,340</u>	<u>1,646,199</u>

#### Liquidity Facility

Under the terms of the securitisation, the Group holds a liquidity facility of £295m provided by two counterparties. The amount drawn at 25 September 2021 is £nil (26 September 2020 £9,362,000). The facility is not available for any other purpose and is sized to cover 18 months debt service.

During the prior period, as a result of the Covid-19 pandemic, the Group obtained a waiver to facilitate drawings of up to £100m in total under the Liquidity facility providing the Group with additional facilities in order to meet payments of principal and interest, provided such drawings were repaid in full by 15 March 2021. This waiver has been extended during the current period, such that full repayment was not required by 15 March 2021, with all drawings now required to be repaid in full by 15 December 2021. The amount drawn at 25 September 2021 is £nil (2020 £9m). Further details of the covenant waivers and amendments obtained are provided within the going concern review in the Director's report.

#### 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 group result from funding and liquidity risk, credit risk, capital risk and market risk, principally as a result of changes in interest and currency rates. Derivative financial instruments, principally interest rate and foreign currency swaps, are used to manage market risk. Derivative financial instruments are not used for trading or speculative purposes.

## Mitchells & Butlers Finance plc

### Notes to the Financial Statements for the 52 weeks ended 25 September 2021 (continued)

#### 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 Company is exposed to risk against counterparties to its financial assets from its derivative financial instruments which are used for risk management purposes and the investment of surplus funds. To mitigate this exposure, the Group Treasury function operates policies that restrict the investment of surplus funds and the entering into of derivative transactions to counterparties that have a minimum credit rating of 'A' (long-term) and 'A1+'/'P1+'/'F1+' (short-term). Counterparties may also be required to post collateral with the Group where their credit rating falls below a predetermined level. The amount that can be invested or transacted at various ratings levels is restricted under the policy. To minimise credit risk exposure against individual counterparties, investments and derivative transactions are entered into with a range of counterparties.

The Group Treasury function reviews credit ratings, as published by Moody's, Standard & Poor's and Fitch Ratings, current exposure levels and the maximum permitted exposure at given credit ratings, for each counterparty on a daily basis. Any exceptions are required to be formally reported to the 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 25 September 2021 was:

	12-month ECL 25 September 2021 £000	Lifetime ECL 25 September 2021 £000	Total 25 September 2021 £000	Total 26 September 2020 £000
Cash and cash equivalents	5,320	-	5,320	31
Amounts owed by group undertakings	37	-	37	37
Derivatives	27,501	-	27,501	44,072
Term Advances	1,498,634	-	1,498,634	1,617,313
Intercompany interest rate swaps	207,803	-	207,803	298,551

##### 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 Group's financial instruments have LIBOR as their reference rate. The Company has now 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). The liquidity facility transitioned during the year to reference SONIA. All other relevant facilities and agreements referencing Sterling LIBOR will transition to reference SONIA for periods commencing on or after 1st January 2022 and those currently referencing US Dollar LIBOR will transition to SOFR for periods commencing on or after 1st July 2023.

# Mitchells & Butlers Finance plc

## Notes to the Financial Statements for the 52 weeks ended 25 September 2021 (continued)

### 11. Financial Instruments (continued)

#### 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.

#### 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.

	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
<b>25 September 2021</b>							
Securitised debt – loan notes	(167,055)	(169,266)	(171,677)	(173,951)	(176,493)	(990,586)	(1,849,027)
Derivative financial liabilities (settled net)	(37,200)	(34,510)	(31,863)	(28,651)	(25,619)	(109,457)	(267,301)
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)	(125,220)
Fixed rate: Securitised debt	(200,983)	(200,358)	(199,969)	(198,872)	(198,216)	(1,090,633)	(2,089,030)
<b>26 September 2020</b>							
Restated*							
Securitised debt – loan notes	(165,962)	(167,551)	(171,266)	(172,951)	(175,158)	(1,171,780)	(2,024,668)
Derivative financial liabilities (settled net)	(39,962)	(37,182)	(34,673)	(31,863)	(28,774)	(135,275)	(307,729)
Derivative financial asset receipts	18,979	19,891	20,503	20,990	21,914	78,914	181,191
Derivative financial asset payments	(14,732)	(15,075)	(16,097)	(17,030)	(17,438)	(60,108)	(140,480)
Fixed rate: Securitised debt	(201,677)	(199,817)	(200,533)	(200,854)	(199,456)	(1,288,249)	(2,291,686)
Liquidity Facility	(9,362)	-	-	-	-	-	(9,362)

\* The contractual undiscounted cash flows in the prior period have been restated to provide a more detailed analysis of the underlying payments on the securitised debt and the cash flows on the interest rate and cross currency swaps (derivative financial assets and liabilities) including the disaggregation of the receipts and payments on the cross currency swap. As a result of providing this more detailed analysis, an error was identified in the prior period disclosure, and therefore the total cash flows have also been restated. The prior period disclosure before restatement is shown below

# Mitchells & Butlers Finance plc

## Notes to the Financial Statements for the 52 weeks ended 25 September 2021 (continued)

### 11. Financial Instruments (continued)

26 September 2020

Securitised debt – loan notes	(177,280)	(164,151)	(166,178)	(168,386)	(170,444)	(1,154,180)	(2,000,619)
Cash flow hedges	(39,962)	(37,382)	(34,673)	(32,007)	(28,774)	(135,475)	(308,273)
Fixed rate: Securitised debt	(217,242)	(201,533)	(200,851)	(200,393)	(199,218)	(1,289,655)	(2,308,892)
Liquidity Facility	(9,362)	-	-	-	-	-	(9,362)

The interest on fixed rate financial instruments is fixed until the maturity of the instrument. The interest on floating rate financial instruments is reset at intervals of less than one year. The other financial assets and liabilities of the Company that are not included in the above table are non-interest bearing and are therefore not subject to interest rate risk.

#### 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:

	25 September 2021 £000	26 September 2020 £000
(Losses) arising during the period	(19,164)	(6,991)
Reclassification adjustments for gains included in profit or loss	16,054	9,628
Net movement in cash flow hedges recognised in equity	(3,110)	2,637

#### 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 £803m (2020 £855m). These are designated as a hedge of the cash flow interest rate risk of £803m (2020 £855m) 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 LIBOR and paying a fixed rate of 4.82% (2020 4.83%). 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 £803m (2020 £855m). These are designated as a hedge of the cash flow and principal interest rate risk of £803m (2020 £855m) 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 4.84% (2020 4.85%) and paying a floating rate of interest based on LIBOR. 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 £124m (2020 £138m) designated as a swap of the cash flow interest rate and currency risk of £124m (2020 £138m) of the Group's A3N floating rate \$207m (2020 \$231m) borrowings. The cash flows occurred quarterly receiving a floating rate of interest based on US\$ LIBOR and paying a floating rate of interest based on UK LIBOR. The ineffectiveness on the cross currency swaps due to foreign currency basis spread was immaterial in both the current and prior period.

The cash flows arising from interest rate swap positions on the same counterparty may be settled as a net position. The cross currency interest rate swap is held under a separate agreement and cash movements for this instrument are settled individually. In the event of default, the interest rate swaps and cross currency swaps may be settled net, giving a net liability of £27m (2020 £46m).



**Mitchells & Butlers Finance plc**

**Notes to the Financial Statements for the 52 weeks ended 25 September 2021 (continued)**

**11. Financial Instruments (continued)**

**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)	-
<b>Total</b>	<b>26,595</b>	<b>-</b>	<b>26,595</b>	<b>-</b>	<b>26,595</b>

**26 September 2020**

	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	(120,069)	-	(120,069)	-	(120,069)
Counterparty B – interest rate swaps	(176,620)	-	(176,620)	44,072	(176,620)
Intercompany – interest rate swaps	298,551	-	298,551	-	298,551
Net interest rate swaps	1,862	-	1,862	44,072	1,862
Counterparty B – cross currency swap liability	(140,128)	(40,128)	-	-	-
Counterparty B – cross currency swap asset	184,200	140,127	44,072	-	-
Net cross currency swap	44,072	-	44,072	(44,072)	-
<b>Total</b>	<b>45,934</b>	<b>-</b>	<b>45,934</b>	<b>-</b>	<b>45,934</b>

**Mitchells & Butlers Finance plc**

**Notes to the Financial Statements for the 52 weeks ended 25 September 2021 (continued)**

**11. Financial Instruments (continued)**

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

	25 September 2021		26 September 2020	
	Book Value £000	Fair value £000	Book value £000	Fair Value £000
Financial assets at amortised cost:				
- Cash and cash equivalents	5,320	5,320	31	31
- Other receivables	1,464	1,464	1,587	1,587
- Amounts owed to group undertakings	37	37	37	37
Term Advances	1,498,634	1,498,634	1,617,313	1,617,313
Financial assets – derivatives:				
- External currency swaps	27,501	27,501	44,072	44,072
Intercompany interest rate swaps	207,803	207,803	298,551	298,551
Financial liabilities at amortised cost:				
Borrowings	(1,526,340)	(1,491,871)	(1,655,561)	(1,459,324)
- Amounts owed to group undertakings	(1,462)	(1,462)	(3,808)	(3,808)
- Accrued expenses	(68)	(68)	(60)	(60)
Financial liabilities – derivatives:				
- External interest rate swaps	(208,709)	(208,709)	(296,688)	(298,688)
	<u>4,180</u>	<u>38,649</u>	<u>5,474</u>	<u>199,711</u>

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 25 September 2021 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
<b>Cash flow hedges</b>				
External interest rate swaps			(37,200)	(171,509)
External cross currency swaps	40	27,461		
Intercompany interest rate swaps	37,299	170,504		
	<u>37,339</u>	<u>197,965</u>	<u>(37,200)</u>	<u>(171,509)</u>

**Mitchells & Butlers Finance plc**

**Notes to the Financial Statements for the 52 weeks ended 25 September 2021 (continued)**

**11. Financial Instruments (continued)**

At 26 September 2020, 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			(39,850)	(256,838)
External cross currency swaps	334	43,738		
Intercompany interest rate swaps	39,962	258,589		
	<u>40,296</u>	<u>302,327</u>	<u>(39,850)</u>	<u>(256,838)</u>

**12. Deferred tax**

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

	25 September 2021 £000	26 September 2020 £000
<b>Deferred tax asset:</b>		
Derivatives	280	-
Deferred tax asset	<u>280</u>	<u>-</u>
	25 September 2021 £000	26 September 2020 £000
<b>Deferred tax liability:</b>		
Derivatives	-	(378)
Deferred tax liability	<u>-</u>	<u>(378)</u>

**13. Equity**

**Share capital**

	25 September 2021		26 September 2020	
<b>Allotted, called up and fully paid</b>	<b>No.</b>	<b>£</b>	<b>No.</b>	<b>£</b>
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
	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>

**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).

## **Mitchells & Butlers Finance plc**

### **Notes to the Financial Statements for the 52 weeks ended 25 September 2021 (continued)**

#### **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.