

Registration number: 04887979

Mitchells & Butlers Retail Holdings Limited

Annual Report and Financial Statements

for the 52 weeks ended 26 September 2020

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Mitchells & Butlers Retail Holdings Limited

Strategic Report for the 52 weeks ended 26 September 2020

Mitchells & Butlers Retail Holdings Limited ("the Company") is a private company limited by shares and is a subsidiary company of Mitchells & Butlers plc. Mitchells & Butlers plc, along with its subsidiaries, form the Mitchells and Butlers group of companies ("the Group"). The address of the Company's registered office is shown in note 12.

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

Fair review of the business

Since 13 November 2003, the Company has acted as the Securitisation Group Parent in connection with the securitisation 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 main purpose is to hold the entire share capital of Mitchells & Butlers Retail Limited ("MAB Retail") and Mitchells & Butlers Finance plc ("MAB Finance").

The profit for the period before taxation was £10,000,000 (2019 £25,000,000). Taxation credited against the profit for the period was £2,973,000 (2019 £nil) leaving a profit after tax of £12,973,000 (2019 £25,000,000). The Company was in a net asset position of £253,563,000 (2019 £203,590,000) at the period end.

Key Performance Indicators

As the Company is non-trading the Directors believe that further 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 2020 of Mitchells & Butlers plc.

Principal risks and uncertainties

The Company has various investments in other group companies and therefore the most significant risk facing the Company is that the recoverable value of these investments falls below the carrying value, resulting in the Company recognising impairment losses. Its primary investment is in the subsidiary Mitchells & Butlers Retail Limited, which operates trading pubs. The investment risk in this subsidiary has increased in the current period due to the enforced 3 month closure of pubs on 20 March 2020 by the UK Government, as a result of Covid-19. This risk is monitored by Directors on a regular basis.

A detailed impairment review has been performed on the Company's investments as described in note 7.

Future Developments

The Company is expected to continue to be an intermediate holding company within the Group. Future transactions are expected to be limited to the receipt of intercompany dividend income and the payment of dividends.

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



G J McMahon
Director

Mitchells & Butlers Retail Holdings Limited

Directors' Report for the 52 weeks ended 26 September 2020

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

Details of future developments can be found in the Strategic Report on page 1.

Dividends

Dividends paid during the period are disclosed in note 11. The Directors are proposing a final dividend of £nil (2019 £nil).

Financial risk management

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

Securitisation

As Securitisation Group Parent, the Company has contingent liabilities under the securitisation arrangements as detailed in note 2 to the financial statements. The Company also has to satisfy certain conditions before it can pay dividends.

During the 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 scheme Trustee. Further details are provided in note 2 to the financial statements.

Going Concern

The financial statements have been prepared on a going concern basis. A full assessment of the going concern statement has been provided in note 1. As described in note 1, a material uncertainty exists, which may cast significant doubt over the Company's ability to trade as a going concern. However, after due consideration the Directors have a reasonable expectation that the Company and the Group have sufficient resources to continue in operational existence for a period of at least twelve months from the date of approval of these financial statements. Accordingly, the financial statements continue to be prepared on the going concern basis.

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

Directors of the Company

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

J A Berrow
S K Martindale
G J McMahon
L J Miles
A W Vaughan

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.

Mitchells & Butlers Retail Holdings Limited
Directors' Report for the 52 weeks ended 26 September 2020 (continued)

Reappointment of auditor

The Company has passed an Elective Resolution pursuant to section 485-488 of the Companies Act 2006 dispensing with the requirement to appoint an auditor annually.

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


G J McMahon
Director

Mitchells & Butlers Retail Holdings Limited

Directors' Responsibilities Statement

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

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

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

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

Independent Auditor's Report to the members of Mitchells & Butlers Retail Holdings Limited

Report on the audit of the financial statements

Opinion

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

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

We have audited the financial statements which comprise:

- the Income statement;
- the Balance sheet;
- the Statement of Changes in Equity; and
- the related notes 1 to 12.

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

Basis for opinion

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

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

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

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of Directors

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

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



John Charlton FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
8 December 2020

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

		52 weeks ended 26 September 2020 £'000	52 weeks ended 28 September 2019 £'000
	Note		
Income from investments	3	10,000	25,000
PROFIT BEFORE TAXATION		<u>10,000</u>	<u>25,000</u>
Tax credit	6	2,973	-
PROFIT FOR THE PERIOD		<u><u>12,973</u></u>	<u><u>25,000</u></u>

The above results are derived from continuing operations.

The Company has no comprehensive income or expense other than the profit above.

The notes on pages 10 to 17 form an integral part of these financial statements.

Mitchells & Butlers Retail Holdings Limited

(Registration number: 04887979)

Balance sheet as at 26 September 2020

		26 September 2020 £'000	28 September 2019 £'000
	Note		
NON-CURRENT ASSETS			
Investments in subsidiaries	7	1,612,050	1,565,050
Deferred tax asset	9	2,973	-
TOTAL NON-CURRENT ASSETS		1,615,023	1,565,050
CURRENT ASSETS			
Cash and cash equivalents		101	101
TOTAL CURRENT ASSETS		101	101
TOTAL ASSETS		1,615,124	1,565,151
CURRENT LIABILITIES			
Trade and other payables	8	(1,361,561)	(1,361,561)
TOTAL CURRENT LIABILITIES		(1,361,561)	(1,361,561)
NET CURRENT LIABILITIES		(1,361,460)	(1,361,460)
TOTAL ASSETS LESS CURRENT LIABILITIES		253,563	203,590
NET ASSETS		253,563	203,590
EQUITY			
Share capital	10	128,750	81,750
Share premium		121,739	121,739
Retained earnings		3,074	101
TOTAL EQUITY		253,563	203,590

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



G J McMahon
Director

The notes on pages 10 to 17 form an integral part of these financial statements.

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

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 29 September 2018	81,750	121,739	101	203,590
Profit for the period	-	-	25,000	25,000
Total comprehensive income	-	-	25,000	25,000
Dividends	-	-	(25,000)	(25,000)
At 28 September 2019	81,750	121,739	101	203,590
Profit for the period	-	-	12,973	12,973
Total comprehensive income	-	-	12,973	12,973
Share capital issued	47,000	-	-	47,000
Dividends	-	-	(10,000)	(10,000)
At 26 September 2020	128,750	121,739	3,074	253,563

The notes on pages 10 to 17 form an integral part of these financial statements.

Mitchells & Butlers Retail Holdings Limited

Notes to the Financial Statements for the 52 weeks ended 26 September 2020

1. Accounting policies

Summary of significant accounting policies

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

Basis of preparation

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

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, 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 2020 of Mitchells & Butlers plc.

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

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

Accounting reference date

The Company's accounting reference date is 30 September. The Company draws up its financial statements to the Saturday directly before or following the accounting reference date, as permitted by section 390(3) of the Companies Act 2006. The period ended 26 September 2020 and the comparative period ended 28 September 2019 both include 52 trading weeks.

Consolidation

The financial statements contain information about the individual Company and do not contain consolidated financial information as the parent of a group. The Company is exempt from preparing group accounts under S400 of Companies Act 2006 since the Company is a wholly owned subsidiary undertaking of another UK company. Group accounts are prepared by the ultimate parent company.

Going concern

The Directors have adopted the going concern basis in preparing these financial statements after assessing the impact of identified principal risks and, in particular, the possible adverse impact on financial performance, specifically revenue and cash flows, of restrictions imposed by the Government in response to the outbreak of Covid-19.

As described above, the Company is the Securitisation Group Parent, and together with its subsidiaries forms the Securitisation Group. The financing of the Securitisation Group is based on securitised debt which includes various covenants. Covenant amendments and waivers have been obtained as a result of Covid-19, as described in note 2.

These revised financial arrangements provide a stronger platform for the business to meet the uncertainty ahead, therefore ensuring that liquidity is not expected to be a main concern during the going concern assessment period. Key to successfully meeting the challenge the Securitisation Group faces will be the depth, duration and recovery profile of the pandemic which will, in turn, dictate the severity of imposed trading restrictions and, therefore, most importantly, the level of sales that the business is able to achieve. The level of sales drives the EBITDA of the business which is a critical measure for covenant compliance tests. The key judgements made by management in arriving at the level of sales are the trajectory of sales recovery, a return to historic trading conditions and the extent of future restrictions.

In reaching this assessment, the Directors have reviewed what they consider to be a plausible base case forecast scenario which includes the impact of the second national lockdown in England from 5 November 2020. This was lifted on 2 December 2020 and has been replaced with ongoing severe restrictions on trading in the hospitality sector, leading to an expectation of sales within the Securitisation Group over the important festive trading period being over 40% lower than in previous years. Over the second quarter of FY 2021, to March 2021, sales are forecast to remain materially lower at approximately 25% down on years prior to FY 2020 (i.e. those years not impacted by the Covid-19 pandemic), reflecting management's expectation of further local lockdowns impacting c.10% of the estate, before building back gradually in the second half of FY 2021 as restrictions become less severe, although sales are not assumed to reach the level achieved pre-Covid during FY 2021. In aggregate, sales are forecast to be 15% down against pre Covid-19 comparatives over the period following anticipated re-opening in December to the end of FY 2021.

Mitchells & Butlers Retail Holdings Limited

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

1. Accounting policies (continued)

Going concern (continued)

Site level operating margins have been assumed to be in line with recent operating margins achieved since reopening in July 2020, which is similar to margins the business has achieved before Covid-19 related closures.

Some limited mitigation and operational cost reduction initiatives are assumed in response to these reduced activity levels being a reduction of circa 10% of total costs, which is assumed to apply also for the period after re-opening. During this time the Securitisation Group is expected to continue to benefit from Government assistance, principally in the form of relief from business rates, a reduction in VAT on non-alcohol sales to April 2021 and some limited payment from the Job Retention Bonus, in respect of which the UK Government is expected to provide revised guidance. Access to the Job Retention Scheme to the extended date of March 2021 is assumed, where applicable, in order to protect employment.

Under the base case forecast, the Securitisation Group continues to remain profitable with no forecasted covenant breach, with the securitised four quarter look-back FCF : debt service covenant demonstrating the lowest level of headroom. In FY 2021 the Securitisation Group continues to remain profitable with sufficient liquidity and no forecast unwaived covenant breaches, although a number of tests have limited remaining headroom.

Reverse stress test

The Securitisation Group has 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 believe that further sales shortfalls are likely to be most acute for the first half of FY 2021. After the assumed re-opening in England in December 2020, a deterioration beyond an average of 4% lower sales than the base case for this same period and second half sales in line with base case would result in a breach in covenants as noted below. From January 2021, some provision is assumed in this scenario for the potential for increased tariff costs on imported food and drink as a result of the risk of a no-deal or limited-deal Brexit. These costs have not been included in the base forecast model due to uncertainty and the availability of potential options to mitigate through supply chain arrangements and range changes.

There is a reasonably plausible scenario where the Securitisation Group could experience the sales shortfalls set out in the reverse stress test which would result in a breach to its covenants. Any breach in covenants would result in a need for a waiver of the banking covenants, or for the Securitisation Group to renegotiate its borrowing facilities, neither of which are fully within the Securitisation Group's control. The Directors have, however, assessed that: given the strength of the underlying business including its property estate and brand portfolio; the Securitisation Group's existing relationships with its main creditors; its historical success in obtaining covenant waivers and in raising finance; and ongoing dialogue with its main creditors, they believe that a waiver of the covenants or renegotiation of the facilities would be successful.

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.

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.

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.

Critical accounting judgements are described in;
Note 7 – Investment in subsidiaries

There are no key sources of estimation uncertainty.

Mitchells & Butlers Retail Holdings Limited
Notes to the Financial Statements for the 52 weeks ended 26 September 2020 (continued)

1. Accounting policies (continued)

Adoption of new and revised Standards

None of the standards and interpretations issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) and effective for the first time in the current period have had a material effect on the financial statements.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any provision for impairment. The value of these investments are reviewed annually for impairment by comparing the recoverable amount with carrying value. Recoverable amount is deemed as being either an enterprise value where the subsidiary is a trading entity or net asset value where the subsidiary has no trading assets.

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.

Trade payables

Trade and other payables are recognised at amortised cost.

Income from investments

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably).

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 assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset realised based on tax laws and rates that have been substantively enacted at the balance sheet date. The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities.

Group tax relief

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

2. Securitisation

On 13 November 2003, the Mitchells & Butlers plc ('MAB') Group refinanced its debt by raising £1,900m through the securitisation of the majority of its UK pubs and restaurants business. Since this date the Company has been Securitisation Group Parent, and subject to the conditions attached to the securitisation. The companies within the Securitisation Group are listed in note 7.

On 15 September 2006 the MAB Group completed a further debt ('tap') issue to borrow an additional £655m and refinance £450m of existing debt at lower cost.

Mitchells & Butlers Retail Holdings Limited

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

2. Securitisation (continued)

The securitisation is governed by various covenants, warranties and events of default which apply to the companies in the Securitisation Group, including the Company. There are restrictions on the amounts of dividends that the Company can pay. A dividend can only be paid if the Securitisation Group satisfies the following conditions at the date the payment is intended to be made and in respect of both the previous two quarters and the previous four quarters, before the restricted payment is intended to be made:

- There has been no loan event of default.
- The EBITDA to debt service ratio is more than or equal to 1.7 to 1.
- The free cash flow debt service cover ratio is more than or equal to 1.3 to 1.

During the 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 scheme Trustee. These can be summarised as:

- a waiver of, and amendment to, the 30 day suspension of business provision, where such provision was waived because the suspension arose due to the enforced closure during the Covid-19 pandemic;
- a waiver of the two quarter look-back debt service coverage ratio test up until July 2021 and a waiver of the four quarter look-back debt service coverage ratio test up until September 2021;
- a waiver of the requirement to appoint a financial adviser which would otherwise have arisen for any periods where the debt service coverage ratio falls to below the required level up until July 2021;
- a reduction in the minimum amount required to be spent on maintenance during FY 2020 and FY 2021 to reflect the operation of the Group's business having been temporarily suspended; and
- 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 are repaid in full by 15 March 2021.

In order to secure such amendments and waivers, the Group gave certain undertakings in relation to its own financing arrangements, namely, to secure the £250m liquidity facilities that are held by other group companies outside of the securitisation structure, and an undertaking to provide funding into the securitisation of up to £100m in line with drawings on the Liquidity Facility.

3. Income from investments

During the period the Company received dividend income of £10,000,000 (2019 £25,000,000) from Mitchells & Butlers Retail Limited, a subsidiary of the company.

4. Operating costs

Fees paid to Deloitte LLP for the audit of the Company's accounts were £750 (2019 £750). The fee is borne on behalf of the Company by another Group company. Fees paid to Deloitte LLP and their associates for non-audit services are not disclosed for the Company since the Annual Report and Accounts 2020 of Mitchells & Butlers plc, the ultimate parent of Mitchells & Butlers Retail Holdings Limited discloses such fees on a consolidated basis.

5. Employees and Directors

The Company does not have any direct employees in the current or prior period. Directors received no emoluments for their services to this Company in the current or prior period.

Directors' remuneration

The five Directors (2019 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 Mitchells & Butlers plc Group. The Directors received total remuneration of £1.0m (2019 £1.8m) 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 (2019 five) of the Directors were members of the Group's defined contribution scheme, with one (2019 one) Director also holding accrued service within the Group's defined benefit scheme. During the period four (2019 four) of the Directors were granted share options in the 'PRSP' (Performance Restricted Share Plan) scheme. Details of this scheme are disclosed in the Mitchells & Butlers plc Annual Report Accounts 2020.

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

Mitchells & Butlers Retail Holdings Limited
Notes to the Financial Statements for the 52 weeks ended 26 September 2020 (continued)

6. Taxation

	52 weeks ended 26 September 2020 £'000	52 weeks ended 28 September 2019 £'000
Taxation – income statement		
Current taxation		
UK corporation tax	3,209	-
Group relief surrendered for nil payment	<u>(3,209)</u>	<u>-</u>
	-	-
Deferred taxation		
Tax losses	<u>2,973</u>	<u>-</u>
	<u>2,973</u>	<u>-</u>
Total tax credited in the income statement	<u><u>2,973</u></u>	<u><u>-</u></u>

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

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

The differences are reconciled below:

	52 weeks ended 26 September 2020 £'000	52 weeks ended 28 September 2019 £'000
Profit before tax	<u>10,000</u>	<u>25,000</u>
Taxation charged at UK standard rate of corporation tax of 19.0% (2019 19.0%)	<u>(1,900)</u>	<u>(4,750)</u>
Income not taxable	1,900	4,750
Group relief surrendered	<u>(3,209)</u>	<u>-</u>
UK-UK transfer pricing – imputed interest expense	<u>6,182</u>	<u>-</u>
Total tax credit	<u><u>2,973</u></u>	<u><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 effect of these changes has been reflected in the closing deferred tax balances at 28 September 2019.

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

Mitchells & Butlers Retail Holdings Limited
Notes to the Financial Statements for the 52 weeks ended 26 September 2020 (continued)

7. Investments in subsidiaries

	£'000
Cost	
At 28 September 2019	1,565,050
Additions ^a	47,000
At 26 September 2020	<u>1,612,050</u>
Carrying amount	
At 26 September 2020	<u><u>1,612,050</u></u>
At 28 September 2019	<u>1,565,050</u>

- a. During the period, the Company subscribed for 47 million ordinary shares of £1 each in Mitchells and Butlers Retail Limited.

Critical accounting judgements - impairment

In the current period, judgement has been applied to determine the most appropriate forecast cash flows to use as the basis for the investment impairment review, as a result of the impact of Covid-19 on site profitability. Site level forecasts have been used that form the basis of the wider Mitchells and Butlers plc Group forecasts used for the going concern review described in the Annual Report and Accounts 2020 of Mitchells and Butlers plc.

The risk of impairment of investments has increased in the current period as a result of the possible adverse impact on financial performance and cash flow of restrictions imposed on the Company's subsidiaries as a result of the outbreak of Covid-19. The Company and its subsidiaries form the Securitisation Group and the Securitisation Group's financing is based on securitised debt which includes various covenants. Covenant amendments and waivers have been obtained as a result of Covid-19, as described in note 2. These revised financial arrangements provide a stronger platform for the subsidiary business to meet the uncertainty ahead. Key to the challenge we face will be the depth, duration and recovery profile of the pandemic which will in turn dictate the severity of imposed trading restrictions and, therefore, most importantly, the level of sales that the Company's main trading subsidiary, Mitchells and Butlers Retail Limited is able to achieve.

To this end, in reaching this assessment the Directors have reviewed a plausible forecast scenario in which Mitchells and Butlers Retail Limited is not subject to enforcement of a prolonged national shutdown but continues to trade at a materially lower level of sales due to selected regional shutdowns alongside other national restrictions, under the UK Government's three tier alert system in England (and similar arrangements in Scotland and Wales.). These forecast cash flows have been used to test the Company's investments for impairment, discounted by applying a pre-tax discount rate of 9.9% (2019 7.3%). For the purposes of the calculation of the recoverable amount, the cash flow projections include 0.0% (2019 0.0%) of growth per annum. No impairment (2019 £nil) has been recognised as a result.

Investments in non-trading companies are tested against the net assets of that company with the resulting FY 2020 review also generating no impairment.

Mitchells & Butlers Retail Holdings Limited
Notes to the Financial Statements for the 52 weeks ended 26 September 2020 (continued)

7. Investments in subsidiaries (continued)

Details of the subsidiaries as at 26 September 2020 are as follows:

Name of subsidiary	Country of incorporation and place of business	Holding	Proportion of voting rights and shares held	Principal activity
Mitchells & Butlers Retail Limited ^a	England and Wales	Ordinary shares	100%	Leisure Retailing
Mitchells & Butlers Finance plc ^a	England and Wales	Ordinary shares	100%	Finance company
Old Kentucky Restaurants Limited	England and Wales	Ordinary shares	100%	Trademark ownership
Browns Restaurant (Brighton) Limited	England and Wales	Ordinary shares	100%	Dormant
Browns Restaurant (Bristol) Limited	England and Wales	Ordinary shares	100%	Dormant
Browns Restaurant (Cambridge) Limited	England and Wales	Ordinary shares	100%	Dormant
Browns Restaurant (London) Limited	England and Wales	Ordinary shares	100%	Dormant
Browns Restaurant (Oxford) Limited	England and Wales	Ordinary shares	100%	Dormant
Browns Restaurants Limited	England and Wales	Ordinary shares	100%	Dormant

a. indicates direct investment of the Company.

All of the above companies are registered at 27 Fleet Street, Birmingham, B3 1JP.

8. Trade and other payables

	26 September 2020 £'000	28 September 2019 £'000
Amounts owed to group undertakings	<u>1,361,561</u>	<u>1,361,561</u>

The amount above includes a balance of £1,361,524,000 (2019 £1,361,524,000) which is a non-interest bearing loan repayable on demand from Mitchells & Butlers Retail Limited, a subsidiary of the Company, and a balance of £37,000 (2019 £37,000) which is a non-interest bearing balance repayable on demand to Mitchells & Butlers Finance plc, a subsidiary of the Company, in respect of unpaid share capital.

9. Deferred tax

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

	26 September 2020 £'000	28 September 2019 £'000
Deferred tax asset		
Trading losses	<u>2,973</u>	<u>-</u>
	<u>2,973</u>	<u>-</u>
	52 weeks ended 26 September 2020 £'000	52 weeks ended 28 September 2019 £'000
Deferred tax in the income statement		
Trading losses	<u>2,973</u>	<u>-</u>
Total deferred tax credit in the income statement	<u>2,973</u>	<u>-</u>

Mitchells & Butlers Retail Holdings Limited
Notes to the Financial Statements for the 52 weeks ended 26 September 2020 (continued)

10. Equity

Share Capital

Allotted, called up and fully paid	26 September 2020		28 September 2019	
	No.	£'000	No.	£'000
Ordinary shares of £1 each ^a	<u>128,749,618</u>	<u>128,750</u>	<u>81,749,618</u>	<u>81,750</u>
	128,749,618	128,750	81,749,618	81,750

- a. During the period 47 million ordinary shares of £1 each were issued and subscribed for by Mitchells & Butlers Leisure Holdings Limited.

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

Share premium

The share premium account represents amounts received in excess of the nominal value of shares on issue of new shares.

11. Dividends

During the period, the Company paid a dividend of £10,000,000, (2019 £25,000,000) based on the number of ordinary shares in issue at the time of the payment. Dividend payments are made by the Company to its immediate parent company, Mitchells & Butlers Leisure Holdings Limited.

The Directors are proposing a final dividend of £nil (2019 £nil).

12. Ultimate parent undertaking

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

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

Relationship between entity and parents

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

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

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