

Mitchells & Butlers Finance plc

Unaudited Semi-Annual Financial Statements

For the 28 weeks ended 11 April 2020

Registered Number: 04778667

Mitchells & Butlers Finance plc

INCOME STATEMENT

For the 28 weeks ended 11 April 2020

		28 weeks ended 11 April 2020 £000	28 weeks ended 13 April 2019 £000	52 weeks ended 28 September 2019 £000
Finance revenue	2	58,280	61,611	112,729
Finance costs	3	<u>(58,221)</u>	<u>(61,535)</u>	<u>(112,575)</u>
PROFIT BEFORE TAXATION		59	76	154
Tax	4	<u>-</u>	<u>-</u>	<u>-</u>
PROFIT FOR THE PERIOD		<u>59</u>	<u>76</u>	<u>154</u>

All activities are derived from continuing operations and are conducted in the United Kingdom.

Mitchells & Butlers Finance plc

STATEMENT OF COMPREHENSIVE INCOME For the 28 weeks ended 11 April 2020

	28 weeks ended 11 April 2020 £000	28 weeks ended 13 April 2019 £000	52 weeks ended 28 September 2019 £000
PROFIT FOR THE PERIOD	59	76	154
Items that may not be reclassified subsequently to profit and loss:			
Cash flow hedges:			
(Losses) / Gains arising during the period	(3,509)	(501)	12,837
Reclassification adjustments for items included in profit or loss	2,859	(23)	(13,603)
Tax relating to items that may be reclassified	136	89	130
OTHER COMPREHENSIVE (EXPENSE) AFTER TAX	(514)	(435)	(636)
TOTAL COMPREHENSIVE (EXPENSE) FOR THE PERIOD	(455)	(359)	(482)

Mitchells & Butlers Finance plc

BALANCE SHEET

At 11 April 2020

	Notes	11 April 2020 £000	13 April 2019 £000	28 September 2019 £000
NON-CURRENT ASSETS				
Derivative Financial Instruments	9	304,260	256,669	317,009
Deferred tax asset	10	245	69	110
Intercompany loan receivables	6	1,555,052	1,655,901	1,602,259
TOTAL NON-CURRENT ASSETS		1,859,557	1,912,639	1,919,378
CURRENT ASSETS				
Trade and other receivables	5	1,390	1,319	1,453
Derivative Financial Instruments	9	38,129	40,218	39,043
Cash and cash equivalents		3,255	30,425	3,186
Other Cash Deposits		-	120,000	-
Intercompany loan receivables	6	100,849	89,519	94,878
TOTAL CURRENT ASSETS		143,623	281,481	138,560
TOTAL ASSETS		2,003,180	2,194,120	2,057,938
CURRENT LIABILITIES				
Trade and other payables	7	(1,531)	(1,269)	(1,577)
Corporation Tax Liability		(260)	(260)	(260)
Borrowings	8	(100,861)	(237,018)	(94,894)
Derivative Financial Instruments	9	(37,311)	(36,226)	(35,807)
TOTAL CURRENT LIABILITIES		(139,963)	(274,773)	(132,538)
NET CURRENT ASSETS		3,660	6,708	6,022
NON-CURRENT LIABILITIES				
Borrowings	8	(1,604,781)	(1,699,811)	(1,656,901)
Derivative Financial Instruments	9	(256,637)	(217,159)	(266,245)
Deferred Tax Liability	10	-	-	-
TOTAL NON-CURRENT LIABILITIES		(1,861,418)	(1,916,970)	(1,923,146)
TOTAL LIABILITIES		(2,001,381)	(2,191,743)	(2,055,684)
NET ASSETS		1,799	2,377	2,254
EQUITY				
Share capital		50	50	50
Hedging reserve		(1,051)	(336)	(537)
Retained earnings		2,800	2,663	2,741
TOTAL EQUITY		1,799	2,377	2,254

Mitchells & Butlers Finance plc

STATEMENT OF CHANGES IN EQUITY For the 28 weeks ended 11 April 2020

	Share capital £000	Hedging reserve £000	Retained earnings £000	Total £000
At 29 September 2018	50	99	2,587	2,736
Profit for the period	-	-	76	76
Other comprehensive expense	-	(435)	-	(435)
	<hr/>	<hr/>	<hr/>	<hr/>
At 13 April 2019	50	(336)	2,663	2,377
Profit for the period	-	-	78	78
Other comprehensive expense	-	(201)	-	(201)
	<hr/>	<hr/>	<hr/>	<hr/>
At 28 September 2019	50	(537)	2,741	2,254
Profit for the period	-	-	59	59
Other comprehensive expense	-	(514)	-	(514)
	<hr/>	<hr/>	<hr/>	<hr/>
At 11 April 2020	50	(1,051)	2,800	1,799

Mitchells & Butlers Finance plc

NOTES TO THE SEMI-ANNUAL FINANCIAL STATEMENTS

For the 28 weeks ended 11 April 2020

1. BASIS OF PREPARATION

Mitchells & Butlers Finance plc ('the Company') is a subsidiary company of Mitchells & Butlers plc. Mitchells & Butlers plc, along with its subsidiaries, form the Mitchells & Butlers group of companies ('the Group').

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.

The financial information for the 52 weeks ended 28 September 2019 has been extracted from the Company's published financial statements for that period, which contain an unqualified audit report and which have been filed with the Registrar of Companies and did not include an emphasis of matter reference, or any statement required under Section 498(2) or (3) of the Companies Act 2006.

The periods ended 11 April 2020 and 13 April 2019 are regarded as distinct financial periods for accounting purposes; income and costs are recognised in the profit and loss account as they arise; tax is calculated on the basis of the expected effective tax rate for the full year.

The semi-annual financial statements do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. As a result of the enforced closure of all pubs and restaurants of the Mitchells & Butlers group across England, Scotland and Wales, as announced by the Government on 20 March 2020 in response to the Covid-19 pandemic, the interim financial information has not been reviewed by the Company's auditor.

2. FINANCE REVENUE

	28 weeks ended 11 April 2020 £000	28 weeks ended 13 April 2019 £000	52 weeks ended 28 September 2019 £000
Intercompany interest on Term Advances	57,360	59,424	109,196
Liquidity facility fees recovered from Mitchells & Butlers Retail Limited	916	1,493	2,665
Bank interest receivable	4	694	868
Total finance revenue	<u>58,280</u>	<u>61,611</u>	<u>112,729</u>

Mitchells & Butlers Finance plc

NOTES TO THE SEMI-ANNUAL FINANCIAL STATEMENTS

For the 28 weeks ended 11 April 2020

3. FINANCE COSTS

	28 weeks ended 11 April 2020 £000	28 weeks ended 13 April 2019 £000	52 weeks ended 28 September 2019 £000
Interest on securitised debt	57,311	59,343	109,037
Liquidity facility fees	909	2,192	3,538
Foreign exchange loss	1	-	-
Total finance costs	<u>58,221</u>	<u>61,535</u>	<u>112,575</u>

4. TAXATION

	28 weeks ended 11 April 2020 £000	28 weeks ended 13 April 2019 £000	52 weeks ended 28 September 2019 £000
Taxation – income statement			
Current taxation			
UK corporation tax	11	14	29
Group relief received for nil payment	(11)	(14)	(29)
Total tax expense recognised in the income statement	<u>-</u>	<u>-</u>	<u>-</u>

Tax has been calculated using an estimated annual effective rate of 19% (2019: 28 weeks, 19%; 52 weeks 19%)

	28 weeks ended 11 April 2020 £000	28 weeks ended 13 April 2019 £000	52 weeks ended 28 September 2019 £000
Taxation - other comprehensive income			
Deferred tax:			
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges	(136)	(89)	(130)
Total tax charge recognised in other comprehensive income	<u>(136)</u>	<u>(89)</u>	<u>(130)</u>

Factors which may affect future tax charges

The Finance Act 2016 was substantively enacted on 15 September 2016 and reduced the main rate of corporation tax to 17% from 1 April 2020. The effect of these changes has been reflected in the closing deferred tax balances at 13 April 2019 and 28 September 2019.

On 17 March 2020 a resolution was passed by Parliament under the Provisional Collection of Taxes Act 1968 which substantively enacted a change in the main rate of corporation tax from 1 April 2020. The resolution superseded existing legislation and replaced the proposed main rate of corporation tax of 17% with a rate of 19%. The effect of this change has been reflected in the closing deferred tax at 11 April 2020.

Mitchells & Butlers Finance plc

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For the 28 weeks ended 11 April 2020

5. TRADE AND OTHER RECEIVABLES

	11 April 2020 £000	13 April 2019 £000	28 September 2019 £000
CURRENT			
Amounts owed by Group undertakings	37	37	37
Prepayments and accrued income	1,353	1,189	1,416
Other receivables	-	93	-
Total trade and other receivables	<u>1,390</u>	<u>1,319</u>	<u>1,453</u>

6. INTERCOMPANY LOAN RECEIVABLES

Term advances to Mitchells & Butlers Retail Limited

	11 April 2020 £000	13 April 2019 £000	28 September 2019 £000
Amounts falling due within one year	100,849	89,519	94,878
Amounts falling due after one year	1,555,052	1,655,901	1,602,259
Total Term Advances	<u>1,655,901</u>	<u>1,745,420</u>	<u>1,697,137</u>

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 group of companies, £1,900m in the following six tranches:

- Class A1 Floating rate Term Advance for £200m
- Class A2 5.584% Term Advance for £550m
- Class A3 Floating rate Term Advance for £250m
- Class B1 5.975% Term Advance for £350m
- Class B2 6.023% Term Advance for £350m
- Class C1 6.479% Term advance for £200m

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 in the following four tranches. As part of the transaction, the original A1 and A3 Term Advances were repaid and reissued as A1N and A3N Term Advances to take advantage of market rates.

- Class A4 Floating rate Term Advance for £170m
- Class AB Floating rate Term Advance for £325m
- Class C2 Floating rate Term Advance for £50m
- Class D1 Floating rate Term Advance for £110m

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

<i>Tranche</i>	<i>Interest</i>	<i>Margin</i>
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%

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NOTES TO THE SEMI-ANNUAL FINANCIAL STATEMENTS

For the 28 weeks ended 11 April 2020

INTERCOMPANY LOAN RECEIVABLES (CONTINUED)

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

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

	11 April 2020 £000	13 April 2019 £000	28 September 2019 £000
Principal outstanding at beginning of the period	1,698,439	1,784,998	1,784,998
Principal repaid during the period	<u>(45,212)</u>	<u>(42,643)</u>	<u>(86,559)</u>
Principal outstanding at end of period	1,653,227	1,742,355	1,698,439
Deferred issue costs	(4,312)	(5,004)	(4,690)
Accrued interest	<u>6,986</u>	<u>8,069</u>	<u>3,388</u>
Carrying value at end of period	<u>1,655,901</u>	<u>1,745,420</u>	<u>1,697,137</u>

7. TRADE AND OTHER PAYABLES

	11 April 2020 £000	13 April 2019 £000	28 September 2019 £000
Amounts owed to group undertakings*	1,393	766	1,380
Accrued expenses	<u>138</u>	<u>503</u>	<u>197</u>
Total trade and other payables	<u>1,531</u>	<u>1,269</u>	<u>1,577</u>

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

8. BORROWINGS

	11 April 2020 £000	13 April 2019 £000	28 September 2019 £000
CURRENT			
Amounts falling due within one year			
Securitised debt	100,861	89,518	94,894
Liquidity facility	<u>-</u>	<u>147,500</u>	<u>-</u>
	<u>100,861</u>	<u>237,018</u>	<u>94,894</u>

Mitchells & Butlers Finance plc

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8. BORROWINGS (CONTINUED)

Liquidity facility

Under the terms of the securitisation, the Company holds a liquidity facility of £295m provided by two counterparties. During the prior year the group novated part of the facility to a higher rated counterparty and repaid the amount drawn. The amount drawn at 11 April 2020 is £nil (28 September 2019 £nil, 13 April 2019 £147.5m). These funds are charged under the terms of the securitisation and are not available for general use.

	11 April 2020 £000	13 April 2019 £000	28 September 2019 £000
NON-CURRENT			
Amounts falling due after more than one year			
Securitised debt	<u>1,604,781</u>	<u>1,699,811</u>	<u>1,656,901</u>
	11 April 2020 £000	13 April 2019 £000	28 September 2019 £000
Securitised debt			
Maturity profile:			
Amounts falling due within one year	<u>100,861</u>	<u>89,518</u>	<u>94,894</u>
Between one and two years	<u>156,582</u>	<u>144,768</u>	<u>158,275</u>
Between two and five years	<u>357,918</u>	<u>338,118</u>	<u>347,045</u>
After five years	<u>1,090,281</u>	<u>1,216,925</u>	<u>1,151,581</u>
Total non-current	<u>1,604,781</u>	<u>1,699,811</u>	<u>1,656,901</u>
Total securitised borrowings	<u>1,705,642</u>	<u>1,789,329</u>	<u>1,751,795</u>

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.

- Class A1 Secured Floating Rate Notes for £200m due 2030
- Class A2 Secured 5.574% for £550m due 2030
- Class A3 Secured Floating Rate Notes for \$418.7m due 2030
- Class B1 Secured 5.965% for £350m due 2025
- Class B2 Secured 6.013% for £350m due 2030
- Class C1 Secured 6.469% for £200m due 2032

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.

- Class A4 Secured Floating Rate Notes for £170m due 2030
- Class AB Secured Floating Rate Notes for £325m due 2033
- Class C2 Secured Floating Rate Notes for £50m due 2034
- Class D1 Secured Floating Rate Notes for £110m due 2036

Mitchells & Butlers Finance plc

NOTES TO THE SEMI-ANNUAL FINANCIAL STATEMENTS

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8. BORROWINGS (CONTINUED)

The loan notes are secured on the assets and future income streams of Mitchells & Butlers Retail Limited. The floating rate notes are hedged using interest rate swaps which fix the interest rate payable. The principal and interest US dollar exposures of the A3N notes are hedged using a cross currency swap to fix the exchange rate at which liabilities are converted into sterling.

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

<i>Tranche</i>	<i>Interest</i>	<i>Margin</i>
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 securitisation is governed by various covenants, warranties and events of default, many of which apply to Mitchells & Butlers Retail Ltd, 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 11 April 2020 Mitchells & Butlers Retail Ltd had cash and cash equivalents of £47m (13 April 2019 £69m, 28 September 2019 £61m) and short-term investments of £nil (13 April 2019 £nil, 28 September 2019 £nil). Of these amounts £1m (13 April 2019 £1m, 28 September 2019 £1m), representing disposal proceeds, was held on deposit in an account over which there are a number of restrictions. The use of this cash requires the approval of the securitisation trustee and may only be used for certain specified purposes such as capital enhancement expenditure and business acquisitions.

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

	11 April 2020 £000	13 April 2019 £000	28 September 2019 £000
Principal outstanding at beginning of the period	1,753,087	1,831,775	1,831,775
Principal repaid during the period	(45,212)	(42,643)	(86,559)
Exchange on translation of dollar loan notes	(4,911)	(2,870)	7,871
Principal outstanding at end of period	1,702,964	1,786,262	1,753,087
Deferred finance costs	(4,308)	(4,999)	(4,679)
Accrued interest	6,986	8,066	3,387
Carrying value at end of period	1,705,642	1,789,329	1,751,795

Under a Guarantee Agreement, Ambac Assurance UK Limited, a financial guarantee insurance company, agreed to act as a guarantor of the Companies obligations to repay interest and principal on the loan notes. In the event that the Company is unable to pay such amounts the guarantee is limited to the Class A1N, Class A3N, Class A4 and Class AB note holders only. During the period an agreement was reached to remove the guarantee from the Class A2 notes.

NOTES TO THE SEMI-ANNUAL FINANCIAL STATEMENTS
For the 28 weeks ended 11 April 2020

9. FINANCIAL INSTRUMENTS

Derivative Financial Instruments

The fair value of the derivative financial instruments are disclosed below:

	Total Assets		Total Liabilities		Total
	Less than one year	More than one year	Less than one year	More than one year	
11 April 2020	£000	£000	£000	£000	£000
Cash flow hedges					
External interest rate swaps	-	-	(37,311)	(256,637)	(293,948)
External cross currency swaps	701	49,181	-	-	49,882
Inter-group interest rate swaps	37,428	255,079	-	-	292,507
	<u>38,129</u>	<u>304,260</u>	<u>(37,311)</u>	<u>(256,637)</u>	<u>48,441</u>

	Total Assets		Total Liabilities		Total
	Less than one year	More than one year	Less than one year	More than one year	
13 April 2019	£000	£000	£000	£000	£000
Cash flow hedges					
External interest rate swaps	-	-	(36,226)	(217,159)	(253,385)
External cross currency swaps	3,863	40,667	-	-	44,530
Inter-group interest rate swaps	36,355	216,002	-	-	252,357
	<u>40,218</u>	<u>256,669</u>	<u>(36,226)</u>	<u>(217,159)</u>	<u>43,502</u>

	Total Assets		Total Liabilities		Total
	Less than one year	More than one year	Less than one year	More than one year	
28 September 2019	£000	£000	£000	£000	£000
Cash flow hedges					
External interest rate swaps	-	-	(35,807)	(266,245)	(302,052)
External cross currency swaps	3,113	52,241	-	-	55,354
Inter-group interest rate swaps	35,930	264,768	-	-	300,698
	<u>39,043</u>	<u>317,009</u>	<u>(35,807)</u>	<u>(266,245)</u>	<u>54,000</u>

10. DEFERRED TAX

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

	28 weeks ended 11 April 2020 £000	28 weeks ended 13 April 2019 £000	52 weeks ended 28 September 2019 £000
Deferred tax asset			
Derivatives	245	69	110
Deferred tax asset	<u>245</u>	<u>69</u>	<u>110</u>

	28 weeks ended 11 April 2020 £000	28 weeks ended 13 April 2019 £000	52 weeks ended 29 September 2019 £000
Deferred tax liability			
Derivatives	-	-	-
Deferred tax liability	<u>-</u>	<u>-</u>	<u>-</u>

11. POST BALANCE SHEET EVENT

Securitised debt

On 11 June 2020 certain amendments and waivers were agreed with Ambac Assurance UK Ltd (as controlling creditor of the secured financing structure) and HSBC (C.I) Trustee (as Trustee of the secured financing structure), to mitigate against the impacts of the Covid-19 pandemic. Under the terms of the agreement, the financial covenant test in respect of the debt service coverage ratio has been waived until July 2021 (in respect of the six month look-back test) and until September 2021 (in respect of the twelve month look-back test). Further key points are: a) the securitised Liquidity Facility can be used to fund debt service costs in June 2020 and September 2020 (up to a maximum amount of £100m), with all amounts having to be repaid by March 2021; b) the requirement to spend a minimum amount of capital maintenance expenditure is waived for periods of closure due to Covid-19. The Group is also committed to provide funding into the securitised financing structure, of up to £100m in line with drawings under the securitised Liquidity Facility.

Liquidity facility

On 15 June 2020 the facility was drawn in an amount of £46.9m to fund debt service costs of the Company in line with the waivers obtained on 11 June 2020.

Securitised Funding

On 16 June 2020 the group subscribed for additional equity in Mitchells & Butlers Retail Ltd in an amount of £47m, in line with the commitments made on the 11 June 2020, to provide additional funding to the securitisation structure.