

# FINANCIAL STATEMENTS

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# Independent auditor's report to the members of Mitchells & Butlers plc

## Report on the audit of the financial statements

### Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 30 September 2017 and of the Group's profit for the 53 weeks then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Mitchells & Butlers plc (the 'Company') and its subsidiaries (the 'Group') which comprise:

- the Group income statement;
- the Group statement of comprehensive income;
- the Group and Company balance sheets;
- the Group and Company statements of changes in equity;
- the Group cash flow statement;
- the related notes 1 to 5 of Group financial statements; and
- the related notes 1 to 10 of the Company financial statements.

## Summary of our audit approach

### Key audit matters

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

- Valuation of the pub estate; and
- Onerous lease provisions.

With the exception of extending the Onerous lease provisions key audit matter to include the fact that the charge for the year is included as a separately disclosed item, there have been no changes in the key audit matters included in our audit report since 2016. This is consistent with the fact that the operations of the Group are largely unchanged from the previous year.

### Materiality

The materiality that we used in the current year was £8.8m which is approximately 5% of profit before tax before separately disclosed items.

### Scoping

A full scope audit has been performed in respect of the UK business, consistent with 2016.

### Significant changes in our approach

In 2016, we adopted an audit approach which tested the operating effectiveness of controls relating to revenue and food and drink expenditure. In 2017, we have tested the operating effectiveness of controls relating to revenue, food and drink expenditure and, in addition, property, plant and equipment.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 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 Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

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

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### Conclusions relating to principal risks, going concern and viability statement

We have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within Section 1 to the financial statements and the Directors' statement on the longer-term viability of the Group contained within the Strategic report on page 40.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 36 to 40 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 37 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement in Section 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group and the Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- the Directors' explanation on page 40 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions; or
- whether the Directors' statements relating to going concern and the prospects of the Company required in accordance with Listing Rule 9.8.6R(3) are materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

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### 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.

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
<p><b>Valuation of the pub estate</b></p> <p>As set out in section 3.1 the value of the estate is £4,429m (2016 £4,423m).</p> <p><b>Freehold and long leasehold</b></p> <p>The accounting policy adopted and judgements used are described in section 3.1 to the financial statements.</p> <p>This is considered to be a key audit matter due to the judgements inherent within the valuation exercise and the range of acceptable judgements. The total net book value of revalued properties as at 30 September 2017 is £4,230m (2016 £4,217m). The revaluation exercise performed in the year has resulted in a net increase of £23m versus carrying value (2016 £136m), which includes an impairment charge of £51m (2016 £80m) recognised in the income statement. The Group's accounting policy sets out that the market value is determined using factors such as estimated fair maintainable trading levels and estimated multiples which are derived for each of the Group's trading brands. 20% of the freehold and long leasehold estate has been inspected by the Group's external valuers, with the result of the inspection informing the brand standard multiples which are then extrapolated across the remainder of the estate.</p> <p>In specific circumstances where this approach does not fairly represent the underlying value of the property, for example if a site is loss making, a spot valuation is applied.</p> <p>Where sites have been impacted by expansionary capital investment in the preceding 12 months, the valuation of those properties is held at the 24 September 2016 valuation plus capital expenditure less depreciation in 2017. Sites that have been open for more than three periods (2016 six periods) are reviewed for impairment.</p> <p><b>Short leasehold</b></p> <p>The accounting policy adopted and judgements used are described in section 3.1 to the financial statements.</p> <p>The total value of short leasehold properties as at 30 September 2017 is £170m (2016 £177m). Judgements in relation to expected trading levels, whether the site has the potential to be turned around and discount rates are applied when calculating short leasehold property impairments. The Group recorded an impairment charge of £17m (2016 £8m) in the year.</p>	<p>We worked with our property valuation specialists and management's external advisors to challenge the methodology and underlying assumptions used in the freehold and long leasehold pub estate valuation. This included:</p> <ul style="list-style-type: none"> <li>• discussing and challenging the appropriateness of the valuation methodology adopted with management's external advisors;</li> <li>• benchmarking valuations to transaction activity in the licensed retail property market, in order to confirm whether the multiples being proposed were appropriate;</li> <li>• confirming that the sites inspected by the Group's valuer were representative of the pub estate as a whole, in terms of brand and geography, to determine that the application of the multiple derived from the valuation of the inspected properties to the rest of the pub estate was appropriate;</li> <li>• confirming that the fair maintainable trading levels used in the revaluation exercise were consistent with the Group's policy and challenging the use of historical trading results rather than forecasts in the determination of fair maintainable trade;</li> <li>• reviewing the future projected income used in the impairment reviews for the sites which have had expansionary capital investment in the preceding 12 months;</li> <li>• obtaining evidence to support the valuation of a sample of properties to which a spot valuation has been applied, for example, through comparison to sales proceeds achieved for similar recent sales transactions. In addition, we performed a retrospective review of prior year sites which were spot valued;</li> <li>• testing the integrity of the data used in the valuations by agreeing a sample to source data;</li> <li>• using analytical tools to test the integrity of the revaluation model; and</li> <li>• assessing the competence, independence and integrity of management's external advisers.</li> </ul> <p>Additionally we:</p> <ul style="list-style-type: none"> <li>• assessed the design and implementation and tested the operating effectiveness of controls in relation to the valuation of the freehold and long leasehold estate.</li> </ul>	<p>We are in agreement with the methodology chosen and the assumptions adopted to revalue the pub estate and conclude there appears to be no bias in the valuation. The multiples adopted across the estate are within a reasonable range. We concur that the valuations are suitable for inclusion in the financial statements.</p>

## Independent auditor's report to the members of Mitchells & Butlers plc continued

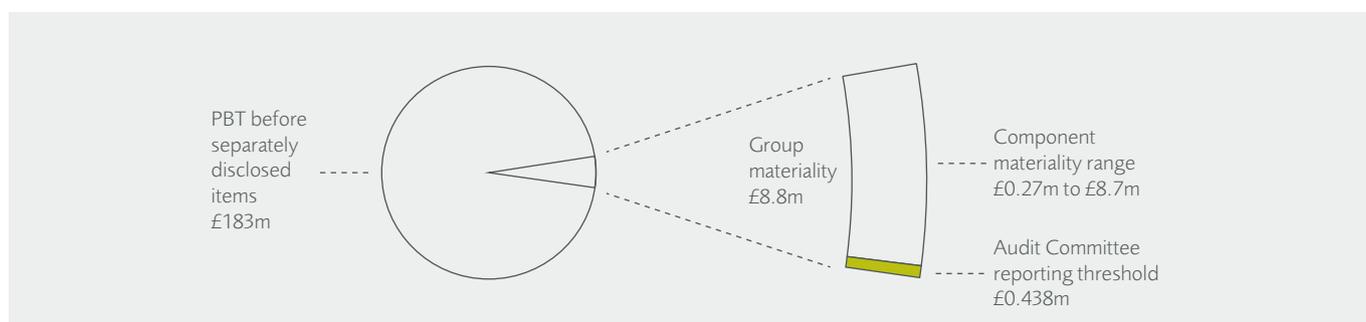
Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
<b>Valuation of the pub estate</b> continued		
<p><b>Focus areas</b></p> <p>Given the amounts capitalised and the risk associated across the freehold, long leasehold and short leasehold sites we have focused our procedures on the assessment made by management of:</p> <ul style="list-style-type: none"> <li>the appropriateness of the fair maintainable trading levels and brand multiple assumptions applied to the freehold and long leasehold estate on a site by site basis;</li> <li>the valuation of freehold and long leasehold sites impacted by expansionary capital, challenging the need for any impairment of property, plant and equipment required at an individual outlet level; and</li> <li>the requirement for any impairment in respect of the property, plant and equipment held in the short leasehold estate at an individual outlet level.</li> </ul> <p>In addition, due to the level of subjective judgements involved in respect of multiple and fair maintainable trade assumptions which are inherently uncertain, we have identified a potential risk of fraud in this key audit matter.</p>	<p>We challenged the assumptions used by management within the impairment reviews performed for the short leasehold estate and freehold and long leasehold sites impacted by expansionary capital. This included:</p> <ul style="list-style-type: none"> <li>obtaining evidence to support management's assertion that short leasehold properties can be successfully turned around where properties have not been impaired due to management's expectation that the performance of the properties will improve. This included obtaining evidence to support management's turnaround plans and performance of a retrospective review considering the success of historic turnaround plans;</li> <li>obtaining evidence to support management's expected performance of sites post investment of expansionary capital and a retrospective review of prior year sites where expansionary capital was incurred;</li> <li>testing the integrity of the information used within the model by agreeing inputs back to source data including historical results and lease terms; and</li> <li>assessing the appropriateness of the discount rate through recalculation and performing sensitivity analysis.</li> </ul> <p>Additionally, we assessed the design and implementation and tested the operating effectiveness of controls in relation to the short leasehold impairment review.</p>	
<b>Onerous lease provisions</b>		
<p>As set out in section 3.3, property provisions are £42.4m (2016 £9.3m) of which £41.9m (2016 £8.8m) relates to onerous lease provisions. The accounting policy for provisions is set out in section 3.3. £35m (2016 £nil) of the property provisions provided in the period have been included as a separately disclosed item in the income statement.</p> <p>Loss-making short leasehold properties are reviewed by management to determine whether an onerous lease provision is required. Judgements in relation to expected trading levels, the appropriate lease term over which to provide, the potential opportunity to exit the leases early and the appropriate discount rate to use are applied when assessing the level of onerous lease provision required. Therefore we have identified a potential risk of fraud in this key audit matter.</p> <p><b>Focus areas</b></p> <p>Given the size of the leasehold estate there is a risk that where a site is underperforming the cash flows may not be adequate to cover future lease obligations, resulting in the requirement for an onerous lease provision for the unavoidable cash flow. We focused on the completeness of the onerous lease provision both in terms of the sites where a provision has not been recognised on the basis that management have a turnaround plan in place or opportunity to exit and where there is a provision, the judgements used in arriving at the level of the provision for each site.</p> <p>In addition and in a change to prior years we focused on the presentation of part of the charge in the year as a separately disclosed item.</p>	<ul style="list-style-type: none"> <li>We assessed the appropriateness of the classification of the £35m of property provisions provided in the period as a separately disclosed item in accordance with IAS 1 Presentation of Financial Statements;</li> <li>We checked that all leasehold sites were considered in management's process to identify sites which were potentially subject to onerous leases;</li> <li>Where onerous lease provisions have not been recognised, despite historical results indicating that a provision may be required, we obtained evidence to support management's assertion that properties can be successfully turned around. This included assessing the success of previous actions undertaken by management to turnaround similar sites;</li> <li>We tested a sample of loss-making short leasehold and unlicensed properties to create an expectation of the appropriate level of onerous lease provision for each property within our sample and compared our expectation with the level of onerous lease provision for each property;</li> <li>We tested the integrity of the information used within the onerous lease provision calculation by agreeing inputs back to source data including historical results, and rental commitments; and</li> <li>We assessed the appropriateness of the risk-free discount rate used through comparison to appropriate external benchmarks.</li> </ul> <p>Additionally, we assessed the design and implementation and tested the operating effectiveness of controls in relation to the calculation of the onerous lease provision.</p>	<p>We agree that the level of onerous lease provision is appropriate and that the classification of the £35m of property provisions provided in the period as separately disclosed is reasonable in accordance with IAS 1 Presentation of Financial Statements.</p> <p>In arriving at £41.9m of onerous lease provisions, management have had to make a number of judgements regarding the performance of the sites and the period to exit. In considering the judgements made, we consider that the provision is within a reasonable range.</p>

### Our application of 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>Group materiality</b>	£8.8m (2016 £8.7m)
<b>Basis for determining materiality</b>	Approximately 5% (2016 5%) of profit before tax adjusted for net profit arising on property disposals, movements in the valuation of the property portfolio and short leasehold impairment and the separately disclosed onerous lease provision charge (2016 profit before tax after the onerous lease provision charge but before separately disclosed items).
<b>Rationale for the benchmark applied</b>	Profit before tax before separately disclosed items is a key measure used by the Group in reporting its results to allow a better understanding of the adjusted trading of the Group and is also a key measure considered by analysts.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £437,500 (2016 £435,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

### An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we performed a full scope audit in respect of the UK retail operating business and the UK property business together accounting for 99% (2016 99%) of the Group's total assets, 97% (2016 97%) of revenue and 98% (2016 98%) of operating profit. This audit work was performed directly by the Group audit engagement team, who also tested the consolidation process. Given the relative size of the German business ('ALEX') we consider the UK business provides sufficient audit assurance over the Group balances. This approach is consistent with 2016.

In responding to the assessed risks of material misstatement, the audit engagement team sought to place reliance on the operating effectiveness of the Group's controls in relation to revenue, food and drink expenditure and property, plant and equipment.

Our audit work on the UK business was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from £0.27m to £8.7m (2016 £0.25m to £8.68m).

### 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.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

**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 Group's and 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 Group or the Company or to cease operations, or have no realistic alternative but to do so.

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

### 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.

## Report on other legal and regulatory requirements

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with 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 Group and or the Company and their 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

#### 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 by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

#### **We have nothing to report in respect of these matters.**

#### 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 or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

#### **We have nothing to report in respect of these matters.**

## Other matters

### Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board on 10 February 2011 to audit the financial statements for the year ending 24 September 2011 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is seven years, covering the years ending 24 September 2011 to 30 September 2017.

### 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).

## John Charlton FCA

### (Senior statutory auditor)

for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom

22 November 2017

## Group income statement

For the 53 weeks ended 30 September 2017

	Notes	2017 53 weeks			2016 52 weeks		
		Before separately disclosed items £m	Separately disclosed items <sup>a</sup> £m	Total £m	Before separately disclosed items £m	Separately disclosed items <sup>a</sup> £m	Total £m
<b>Revenue</b>	2.1, 2.3	<b>2,180</b>	<b>–</b>	<b>2,180</b>	2,086	–	2,086
Operating costs before depreciation, amortisation and movements in the valuation of the property portfolio	2.2, 2.3	<b>(1,751)</b>	<b>(35)</b>	<b>(1,786)</b>	(1,655)	–	(1,655)
Net profit arising on property disposals	2.2, 2.3	<b>–</b>	<b>1</b>	<b>1</b>	–	1	1
<b>EBITDA<sup>b</sup></b>		<b>429</b>	<b>(34)</b>	<b>395</b>	431	1	432
Depreciation, amortisation and movements in the valuation of the property portfolio	2.2, 2.3	<b>(115)</b>	<b>(72)</b>	<b>(187)</b>	(113)	(88)	(201)
<b>Operating profit/(loss)</b>	2.1	<b>314</b>	<b>(106)</b>	<b>208</b>	318	(87)	231
Finance costs	4.3	<b>(125)</b>	<b>–</b>	<b>(125)</b>	(126)	–	(126)
Finance revenue	4.3	<b>1</b>	<b>–</b>	<b>1</b>	1	–	1
Net pensions finance charge	4.3, 4.5	<b>(7)</b>	<b>–</b>	<b>(7)</b>	(12)	–	(12)
<b>Profit/(loss) before tax</b>		<b>183</b>	<b>(106)</b>	<b>77</b>	181	(87)	94
Tax (expense)/credit	2.2, 2.4	<b>(37)</b>	<b>23</b>	<b>(14)</b>	(37)	32	(5)
<b>Profit/(loss) for the period</b>		<b>146</b>	<b>(83)</b>	<b>63</b>	144	(55)	89
<b>Earnings per ordinary share</b>							
– Basic	2.5	<b>34.9p</b>		<b>15.1p</b>	34.9p		21.6p
– Diluted	2.5	<b>34.8p</b>		<b>15.0p</b>	34.9p		21.6p

a. Separately disclosed items are explained and analysed in note 2.2.

b. Earnings before interest, tax, depreciation, amortisation and movements in the valuation of the property portfolio.

The notes on pages 101 to 134 form an integral part of these financial statements.

All results relate to continuing operations.

## Group statement of comprehensive income

For the 53 weeks ended 30 September 2017

	Notes	2017 53 weeks £m	2016 52 weeks £m
<b>Profit for the period</b>		<b>63</b>	89
<b>Items that will not be reclassified subsequently to profit or loss:</b>			
Unrealised gain on revaluation of the property portfolio	3.1	74	216
Remeasurement of pension liability	4.5	8	(22)
Tax relating to items not reclassified	2.4	(13)	(21)
		<b>69</b>	173
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Exchange differences on translation of foreign operations		1	3
Cash flow hedges:			
– Gains/(losses) arising during the period	4.4	60	(116)
– Reclassification adjustments for items included in profit or loss	4.4	53	8
Tax relating to items that may be reclassified	2.4	(19)	10
		<b>95</b>	(95)
<b>Other comprehensive income after tax</b>		<b>164</b>	78
<b>Total comprehensive income for the period</b>		<b>227</b>	167

The notes on pages 101 to 134 form an integral part of these financial statements.

## Group balance sheet

30 September 2017

	Notes	2017 £m	2016 £m
<b>Assets</b>			
Goodwill and other intangible assets	3.4	10	9
Property, plant and equipment	3.1	4,429	4,423
Lease premiums		1	2
Deferred tax asset	2.4	110	143
Derivative financial instruments	4.4	41	52
<b>Total non-current assets</b>		<b>4,591</b>	4,629
Inventories	3.2	24	25
Trade and other receivables	3.2	53	32
Other cash deposits	4.1	120	120
Cash and cash equivalents	4.1	147	158
Derivative financial instruments	4.4	2	1
Assets held for sale	3.1	1	–
<b>Total current assets</b>		<b>347</b>	336
<b>Total assets</b>		<b>4,938</b>	4,965
<b>Liabilities</b>			
Pension liabilities	4.5	(47)	(46)
Trade and other payables	3.2	(297)	(293)
Current tax liabilities		(3)	(12)
Borrowings	4.2	(235)	(253)
Derivative financial instruments	4.4	(43)	(44)
<b>Total current liabilities</b>		<b>(625)</b>	(648)
Pension liabilities	4.5	(245)	(291)
Borrowings	4.2	(1,827)	(1,920)
Derivative financial instruments	4.4	(249)	(360)
Deferred tax liabilities	2.4	(324)	(329)
Provisions	3.3	(42)	(9)
<b>Total non-current liabilities</b>		<b>(2,687)</b>	(2,909)
<b>Total liabilities</b>		<b>(3,312)</b>	(3,557)
<b>Net assets</b>		<b>1,626</b>	1,408
<b>Equity</b>			
Called up share capital	4.7	36	35
Share premium account	4.7	26	27
Capital redemption reserve	4.7	3	3
Revaluation reserve	4.7	1,202	1,142
Own shares held	4.7	(1)	(1)
Hedging reserve	4.7	(244)	(338)
Translation reserve	4.7	14	13
Retained earnings		590	527
<b>Total equity</b>		<b>1,626</b>	1,408

The notes on pages 101 to 134 form an integral part of these financial statements.

The financial statements were approved by the Board and authorised for issue on 22 November 2017.

They were signed on its behalf by:

**Tim Jones**  
Finance Director

## Group statement of changes in equity

For the 53 weeks ended 30 September 2017

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Own shares held £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
<b>At 26 September 2015</b>	35	26	3	938	(1)	(240)	10	500	1,271
Profit for the period	–	–	–	–	–	–	–	89	89
Other comprehensive income/(expense)	–	–	–	204	–	(98)	3	(31)	78
<b>Total comprehensive income/(expense)</b>	–	–	–	204	–	(98)	3	58	167
Share capital issued	–	1	–	–	–	–	–	–	1
Purchase of own shares	–	–	–	–	(1)	–	–	–	(1)
Release of own shares	–	–	–	–	1	–	–	(1)	–
Credit in respect of share-based payments	–	–	–	–	–	–	–	2	2
Dividends paid	–	–	–	–	–	–	–	(31)	(31)
Tax on share-based payments taken directly to equity	–	–	–	–	–	–	–	(1)	(1)
<b>At 24 September 2016</b>	35	27	3	1,142	(1)	(338)	13	527	1,408
Profit for the period	–	–	–	–	–	–	–	63	63
Other comprehensive income	–	–	–	61	–	94	1	8	164
<b>Total comprehensive income</b>	–	–	–	61	–	94	1	71	227
Credit in respect of share-based payments	–	–	–	–	–	–	–	2	2
Dividends paid	–	–	–	–	–	–	–	(12)	(12)
Revaluation reserve realised on disposal of properties	–	–	–	(1)	–	–	–	1	–
Scrip dividend related share issue	1	(1)	–	–	–	–	–	–	–
Tax on share-based payments taken directly to equity	–	–	–	–	–	–	–	1	1
<b>At 30 September 2017</b>	<b>36</b>	<b>26</b>	<b>3</b>	<b>1,202</b>	<b>(1)</b>	<b>(244)</b>	<b>14</b>	<b>590</b>	<b>1,626</b>

## Group cash flow statement

For the 53 weeks ended 30 September 2017

	Notes	2017 53 weeks £m	2016 52 weeks £m
<b>Cash flow from operations</b>			
Operating profit		208	231
Add back: adjusted items	2.2	106	87
Operating profit before adjusted items		314	318
Add back:			
Depreciation of property, plant and equipment	2.3	113	111
Amortisation of intangibles	2.3	2	2
Cost charged in respect of share-based payments	4.6	2	2
Administrative pension costs	4.5	2	2
<b>Operating cash flow before adjusted items, movements in working capital and additional pension contributions</b>		<b>433</b>	435
Decrease/(increase) in inventories		1	(1)
Increase in trade and other receivables		(20)	(4)
Increase/(decrease) in trade and other payables		7	(5)
Decrease in provisions		(2)	(1)
Additional pension contributions	4.5	(46)	(49)
<b>Cash flow from operations before adjusted items</b>		<b>373</b>	375
Interest paid		(122)	(126)
Interest received		1	1
Tax paid		(26)	(28)
<b>Net cash from operating activities</b>		<b>226</b>	222
<b>Investing activities</b>			
Purchases of property, plant and equipment		(166)	(166)
Purchases of intangible assets		(3)	(1)
Proceeds from sale of property, plant and equipment		46	5
<b>Net cash used in investing activities</b>		<b>(123)</b>	(162)
<b>Financing activities</b>			
Issue of ordinary share capital		–	1
Purchase of own shares		–	(1)
Dividends paid (net of scrip dividend)	4.7	(12)	(31)
Repayment of principal in respect of securitised debt	4.2	(77)	(67)
Net movement on unsecured revolving credit facilities	4.1	(25)	31
<b>Net cash used in financing activities</b>		<b>(114)</b>	(67)
<b>Net decrease in cash and cash equivalents</b>		<b>(11)</b>	(7)
Cash and cash equivalents at the beginning of the period		158	163
Foreign exchange movements on cash		–	2
<b>Cash and cash equivalents at the end of the period</b>	4.1	<b>147</b>	158

The notes on pages 101 to 134 form an integral part of these financial statements.

## Notes to the financial statements

### Section 1 – Basis of preparation

#### General information

Mitchells & Butlers plc (the Company) is a public limited company limited by shares and is registered in England and Wales. The Company's shares are listed on the London Stock Exchange. The address of the Company's registered office is shown on page 143.

The principal activities of the Company and its subsidiaries (the Group) and the nature of the Group's operations are set out in note 2.1 and in the Strategic report on pages 1 to 43.

Mitchells & Butlers plc, along with its subsidiaries (together 'the Group'), is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and in accordance with the Companies Act 2006.

The Group's accounting reference date is 30 September. The Group 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 30 September 2017 includes 53 trading weeks and the period ended 24 September 2016 includes 52 trading weeks.

The financial statements have been prepared on the historical cost basis as modified by the revaluation of properties, pension obligations and financial instruments.

The Group's accounting policies have been applied consistently.

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of Mitchells & Butlers plc ('the Company') and entities controlled by the Company (its subsidiaries). The financial statements of the subsidiaries are prepared for the same financial reporting period as the Company. Intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated on consolidation.

The results of subsidiaries acquired during the period are included in the consolidated income statement from the date of acquisition.

#### Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report and Business review on pages 1 to 43. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described within the Business review.

In addition, note 4.4 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. As highlighted in note 4.2 to the financial statements, the Group's financing is based upon securitised debt.

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

#### Foreign currencies

Transactions in foreign currencies are recorded at the exchange rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the relevant rates of exchange ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities are measured at cost using the exchange rate on the date of the initial transaction.

The consolidated financial statements are presented in pounds sterling (rounded to the nearest million), being the functional currency of the primary economic environment in which the parent and most subsidiaries operate. On consolidation, the assets and liabilities of the Group's overseas operations are translated into sterling at the relevant rates of exchange ruling at the balance sheet date. The results of overseas operations are translated into sterling at average rates of exchange for the period. Exchange differences arising from the translation of the results and the retranslation of opening net assets denominated in foreign currencies are taken directly to the Group's translation reserve. When an overseas operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

The results of overseas operations have been translated into sterling at the weighted average euro rate of exchange for the period of £1 = €1.16 (2016 £1 = €1.28), where this is a reasonable approximation to the rate at the dates of the transactions. Euro and US dollar denominated assets and liabilities have been translated at the relevant rate of exchange at the balance sheet date of £1 = €1.13 (2016 £1 = €1.16) and £1 = \$1.34 (2016 £1 = \$1.30) respectively.

## Notes to the financial statements

### Section 1 – Basis of preparation continued

#### Recent accounting developments

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and interpretations which have been adopted by the Group in these financial statements for the first time:

Accounting standard	Requirement	Impact on financial statements
<b>Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception</b>	The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10.	As the Company is not an investment entity and does not have any holding company, subsidiary, associate or joint venture that qualifies as an investment entity, the adoption of the amendments has had no impact on the Group's financial statements.
<b>Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations</b>	<p>The Group has adopted the amendments for the first time in the current period. The amendments provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles of accounting for business combinations in IFRS 3 and other standards should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.</p> <p>A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.</p>	The adoption of these amendments has had no impact on the Group's consolidated financial statements.
<b>Amendments to IAS 1</b>	<p>The Group has adopted the amendments to IAS 1 Disclosure Initiative for the first time in the current period. The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the aggregation and disaggregation of information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and performance.</p> <p>In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Group, and should be separated into the share of items that, in accordance with other IFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.</p> <p>The amendments also address the structure of the financial statements by providing examples of the systematic ordering or grouping of the notes.</p>	The adoption of these amendments has not resulted in any impact on the financial performance or position of the Group.
<b>Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation</b>	<p>The Group has adopted the amendments for the first time in the current period. The amendments prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:</p> <p>(a) When the intangible asset is expressed as a measure of revenue; or</p> <p>(b) When it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.</p>	As the Group already uses the straight-line method for depreciation and amortisation for its property, plant and equipment and intangible assets, the adoption of these amendments has had no impact on the Group's consolidated financial statements.
<b>Amendments to IAS 27 Equity Method in Separate Financial Statements</b>	<p>The Group has adopted the amendments for the first time in the current period. The amendments focus on separate financial statements and allow the use of the equity method in such statements. Specifically, the amendments allow an entity to account for investments in subsidiaries, associates and joint ventures in its separate financial statements:</p> <ul style="list-style-type: none"> <li>• at cost;</li> <li>• in accordance with IFRS 9; or</li> <li>• using the equity method as described in IAS 28 Investments in Associates and Joint Ventures.</li> </ul> <p>The same accounting must be applied to each category of investments.</p> <p>The amendments also clarify that when a parent entity ceases to be an investment entity, or becomes an investment entity, it should account for the change from the date when the change in status occurs.</p>	The adoption of the amendments has had no impact on the Company's separate financial statements as the Company accounts for investments in subsidiaries and associates at cost and is not an investment entity.

Accounting standard	Requirement	Impact on financial statements
<b>Annual Improvements to IFRSs: 2012 to 2014 Cycle</b>	<p>The amendments to IFRS 5 Non-current Assets Held for Sale introduce specific guidance for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarify the guidance for when held for distribution accounting is discontinued.</p> <p>The amendments to IFRS 7 Financial Instruments: Disclosures provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.</p> <p>The amendments to IAS 19 Employee Benefits clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields on high-quality corporate bonds. The assessment of the depth of a market for high-quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high-quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.</p>	<p>The adoption of these amendments has had no impact on the Group's consolidated financial statements.</p> <p>The Group uses a discount rate that is determined with reference to market yields on high-quality corporate bonds to discount the defined benefit obligations. Further details are provided in note 4.5.</p>

The IASB and IFRIC have issued the following standards and interpretations which could impact the Group, with an effective date for financial periods beginning on or after the dates disclosed below:

Accounting standard	Effective date
<b>IAS 7 (amendments) Disclosure Initiative</b>	1 January 2017 (subject to EU endorsement)
<b>IAS 12 (amendments) Recognition of Deferred Tax Assets for Unrealised Losses</b>	1 January 2017 (subject to EU endorsement)
<b>IFRS 15 Revenue from Contracts with Customers</b>	1 January 2018
<b>IFRS 9 Financial Instruments</b>	1 January 2018
<b>IFRS 2 (amendments) Classification and Measurement of Share-based Payment Transactions</b>	1 January 2018 (subject to EU endorsement)

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods. Beyond this, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

Accounting standard	Effective date
<b>IFRS 16 Leases</b>	1 January 2019 (subject to EU endorsement)
	The standard replaces IAS 17 Leases and requires lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset is of low value.

The above standard reflects a significant change in the accounting and reporting of leases for lessees as it provides a single lessee accounting model, and as such, requires lessees to recognise assets and liabilities for all leases unless the underlying asset has a low value or the lease term is 12 months or less. Accounting requirements for lessors is substantially unchanged from IAS 17. As shown in note 2.3, the Group has lease commitments of £693m at 30 September 2017 across more than 300 leases of varying remaining length and age. The impact of the standard on the Group is currently being assessed and it is not yet practicable to quantify the effect of IFRS 16 on these consolidated financial statements. There is no impact on cash flow.

### Critical accounting judgements and estimates

The preparation of the consolidated 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. Details of the Group's critical accounting judgements and estimates are described within the relevant accounting policy section in each of the notes to the financial statements.

Critical judgements are described in each section listed below:

- Note 2.2 Separately disclosed items
- Note 3.1 Property, plant and equipment
- Note 3.3 Provisions
- Note 4.5 Pensions

Critical estimates are described in:

- Note 3.1 Property, plant and equipment

## Notes to the financial statements

### Section 2 – Results for the year

#### 2.1 Segmental analysis

##### Accounting policies

##### Operating segments

IFRS 8 Operating Segments requires operating segments to be based on the Group's internal reporting to its Chief Operating Decision Maker (CODM). The CODM is regarded as the Chief Executive together with other Board members. The CODM uses EBITDA and profit before interest and adjusted items (operating profit pre-adjustments) as the key measures of the segment results. Group assets are reviewed as part of this process but are not presented on a segment basis.

The retail operating business operates all of the Group's retail operating units and generates all of its external revenue. The property business holds the Group's freehold and long leasehold property portfolio and derives all of its income from the internal rent levied against the Group's retail operating units. At a macro level, rent is set on a market-based measure with this being reviewed on a five yearly basis. The internal rent charge is eliminated at the total Group level.

##### Segmental information

	Retail operating business		Property business		Total	
	2017 53 weeks £m	2016 52 weeks £m	2017 53 weeks £m	2016 52 weeks £m	2017 53 weeks £m	2016 52 weeks £m
Revenue	2,180	2,086	–	–	2,180	2,086
EBITDA pre-adjustments	213	217	216 <sup>a</sup>	214 <sup>a</sup>	429	431
Operating profit pre-adjustments	111	117	203	201	314	318
Separately disclosed items (note 2.2)					(106)	(87)
Operating profit					208	231
Net finance costs					(131)	(137)
<b>Profit before tax</b>					<b>77</b>	94
Tax expense					(14)	(5)
<b>Profit for the period</b>					<b>63</b>	89

a. The EBITDA pre-adjustments of the property business relates entirely to rental income received from the retail operating business.

##### Geographical segments

Substantially all of the Group's business is conducted in the United Kingdom. In presenting information by geographical segment, segment revenue and non-current assets are based on the geographical location of customers and assets.

	UK		Germany		Total	
	2017 53 weeks £m	2016 52 weeks £m	2017 53 weeks £m	2016 52 weeks £m	2017 53 weeks £m	2016 52 weeks £m
Revenue – sales to third parties	2,100	2,018	80	68	2,180	2,086
Segment non-current assets <sup>a</sup>	4,430	4,423	10	11	4,440	4,434

a. Includes balances relating to intangibles, property, plant and equipment and non-current lease premiums.

## 2.2 Separately disclosed items

### Accounting policy

In addition to presenting information on an IFRS basis, the Group also presents adjusted profit and earnings per share information that excludes separately disclosed items and the impact of any associated tax. This adjusted information is disclosed to allow a better understanding of the adjusted trading performance of the Group and is consistent with the Group's internal management reporting.

Separately disclosed items are those which are separately identified by virtue of their size or incidence and include movements in the valuation of the property portfolio as a result of the annual revaluation exercise, impairment review of short leasehold and unlicensed properties, movements in the onerous lease provision, restructuring costs and effects of corporation tax rate change.

### Critical accounting judgements

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

Separately disclosed items are identified as follows:

- Profit/(loss) arising on property disposals – property disposals are disclosed separately as they are not considered to be part of adjusted trade performance and there is volatility in the size of the profit/(loss) in each accounting period.
- Movement in the valuation of the property portfolio – this is disclosed separately, due to the size of the movement in property valuation each period. This movement is also not considered to be part of the adjusted trade performance of the Group.
- Onerous lease provision – this provision is calculated on a site by site basis, with the majority of the additions for the current period being disclosed separately. This increase is the result of a full review of estate strategy. In addition, the discount rate applied in calculating the provision has been changed in the current period. Due to the size of the resulting increase in the provision, this has been disclosed separately.
- Tax rate change – the change in tax rate is not part of normal trade and due to the size in any given period, this is disclosed separately.

The items identified in the current period are as follows:

	Notes	2017 53 weeks £m	2016 52 weeks £m
<b>Adjusted items</b>			
Net profit arising on property disposals		1	1
Movement in the valuation of the property portfolio (see note 3.1):			
– Impairment arising from the revaluation	a	(51)	(80)
– Impairment of short leasehold and unlicensed properties	b	(17)	(8)
– Impairment of assets held for sale	c	(4)	–
Net movement in the valuation of the property portfolio		(72)	(88)
Other adjusted items:			
Onerous lease provision additions	d	(35)	–
<b>Total adjusted items before tax</b>		<b>(106)</b>	<b>(87)</b>
Tax credit relating to above items		23	18
Tax credit in respect of change in tax legislation (note 2.4)	e	–	14
<b>Total adjusted items after tax</b>		<b>(83)</b>	<b>(55)</b>

- a. Impairment arising from the Group's revaluation of its pub estate where their carrying values exceed their recoverable amount. See note 3.1 for further details.
- b. Impairment of short leasehold and unlicensed properties where their carrying values exceed their recoverable amount. See note 3.1 for further details.
- c. Impairment recognised on reclassification of property, plant and equipment to assets held for sale.
- d. During the period, a review of estate strategy in relation to managed leasehold sites has been completed, with specific focus on the challenges around loss-making sites and those located on retail and leisure parks. The losses are now considered unavoidable for the remaining committed lease term. In addition, the discount rate applied in the calculation has been updated. As a result, the onerous lease provision has been increased significantly with the majority of this increase recognised as a separately disclosed item. See note 3.3 for further details.
- e. The prior year deferred tax credit relates to the enactment of the Finance (No.2) Act 2015 on 18 November 2015 which reduced the main rate of corporation tax from 20% to 19% from 1 April 2017. In addition, 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.

## Notes to the financial statements

### Section 2 – Results for the year continued

#### 2.3 Revenue and operating costs

##### Accounting policies

##### Revenue recognition

Revenue is the fair value of goods and services sold to third parties as part of the Group's trading activities, after deducting sales-based taxes, coupons and discounts.

The majority of revenue comprises food and beverages sold in the Group's businesses. This revenue is recognised at the point of sale to the customer.

##### Operating profit

Operating profit is stated after charging adjusted items but before investment income and finance costs.

##### Supplier incentives

Supplier incentives and rebates are recognised within operating costs as they are earned. The accrued value at the reporting date is included in other receivables.

##### Operating leases – Group as lessee

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases and sub-leases are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives are recognised as a liability and a subsequent reduction in the rental expense over the lease term on a straight-line basis.

Premiums paid on acquiring a new lease are spread on a straight-line basis over the lease term. Such premiums are classified in the balance sheet as current or non-current prepayments, with the current portion being the element which relates to the following period.

The Group's policy is to account for land held under both long and short leasehold contracts as operating leases, since it has no expectation that title will pass on expiry of the lease contracts.

##### Operating leases – Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the lease.

Revenue is analysed as follows:

	<b>2017</b> <b>53 weeks</b> <b>£m</b>	2016 52 weeks £m
Goods	<b>2,169</b>	2,075
Services	<b>11</b>	11
	<b>2,180</b>	2,086

Revenue from services includes rent receivable from unlicensed properties and leased operations.

Operating costs are analysed as follows:

	<b>2017</b> <b>53 weeks</b> <b>£m</b>	2016 52 weeks £m
Raw materials and consumables recognised as an expense	<b>573</b>	552
Changes in inventory of finished goods and work in progress	<b>1</b>	(1)
Employee costs	<b>682</b>	626
Hire of plant and machinery	<b>24</b>	22
Property operating lease costs	<b>62</b>	58
Other costs	<b>409</b>	398
Operating costs before depreciation, amortisation and movements in the valuation of the property portfolio	<b>1,751</b>	1,655
Depreciation of property, plant and equipment (note 3.1)	<b>113</b>	111
Amortisation of intangible assets (note 3.4)	<b>2</b>	2
Net movement in the valuation of the property portfolio (note 3.1)	<b>72</b>	88
Depreciation, amortisation and movements in the valuation of the property portfolio	<b>187</b>	201
Other adjusted items (note 2.2)	<b>35</b>	–
Net profit arising on property disposals	<b>(1)</b>	(1)
<b>Total operating costs</b>	<b>1,972</b>	1,855

## Employee costs

	2017 53 weeks £m	2016 52 weeks £m
Wages and salaries	625	577
Share-based payments (note 4.6)	2	2
Total wages and salaries	627	579
Social security costs	48	40
Pensions (note 4.5)	7	7
Total employee costs	682	626

The average number of employees including part-time employees was 44,893 retail employees (2016 43,495) and 998 support employees (2016 980). Information regarding key management personnel is included in note 5.1. Detailed information regarding Directors' emoluments, pensions, long-term incentive scheme entitlements and their interests in share options is given in the Report on Directors' remuneration on pages 66 to 87.

## Operating leases

### Operating lease commitments – Group as lessee

The vast majority of the Group's leases are industry standard UK pub or commercial property leases which provide for periodic rent reviews to open market value and enjoy statutory rights to renewal on expiry. Generally they do not contain conditions relating to rent escalation, rights to purchase, concessions, residual values or other material provisions of an unusual nature.

Total future minimum lease rental payments under non-cancellable operating leases are as follows:

	2017 £m	2016 £m
Due within one year	54	52
Between one and five years	199	194
After five years	440	448
	693	694

### Operating lease receivables – Group as lessor

The Group leases a small proportion of its unlicensed properties to tenants. The majority of lease agreements have terms of 50 years or less and are classified as operating leases. Where sublet arrangements are in place, future minimum lease payments and receipts are presented gross.

Total future minimum lease rental receipts under non-cancellable operating leases are as follows:

	2017 £m	2016 £m
Due within one year	8	8
Between one and five years	27	26
After five years	45	45
	80	79

Lease income recognised in the year was as follows:

	2017 53 weeks £m	2016 52 weeks £m
Standard lease income	10	10

## Auditor remuneration

	2017 53 weeks £m	2016 52 weeks £m
Fees payable to the Group's auditor for the:		
– audit of the consolidated Group financial statements	0.1	0.1
– audit of the Company's subsidiaries financial statements	0.3	0.3
Total audit fees	0.4	0.4
Other fees to auditor:		
– audit related assurance services	0.1	0.1
Total non-audit fees	0.1	0.1

Auditor's remuneration of £0.3m (2016 £0.3m) was paid in the UK and £0.1m (2016 £0.1m) was paid in Germany.

## Notes to the financial statements

### Section 2 – Results for the year continued

#### 2.4 Taxation

##### Accounting policies

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 that are charged or credited in other comprehensive income or directly in equity, in which case the income tax is also charged or credited in other comprehensive income or directly in equity.

Deferred tax is recognised on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount of their tax bases. Deferred tax is not recognised in respect of temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities.

##### Taxation – income statement

	2017 53 weeks £m	2016 52 weeks £m
Current tax:		
– UK corporation tax	(20)	(28)
– Amounts over provided in prior periods	3	3
Total current tax charge	(17)	(25)
Deferred tax:		
– Origination and reversal of temporary differences	7	9
– Adjustments in respect of prior periods	(4)	(3)
– Change in tax rate	–	14
Total deferred tax credit	3	20
Total tax charged in the income statement	(14)	(5)
Further analysed as tax relating to:		
Profit before adjusted items	(37)	(37)
Adjusted items	23	32
	(14)	(5)

The tax charge in the income statement for the period is lower (2016 lower) than the standard rate of corporation tax in the UK. The differences are reconciled below:

	2017 53 weeks £m	2016 52 weeks £m
Profit before tax	77	94
Taxation charge at the UK standard rate of corporation tax of 19.5% (2016 20.0%)	(15)	(19)
Expenses not deductible	(4)	(2)
Income not taxable	9	2
Adjustments in respect of prior periods	(1)	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1)	–
Tax credit in respect of change in UK tax rate	–	14
Effect of different rates for deferred tax and corporation tax	(2)	–
Total tax charge in the income statement	(14)	(5)

Taxation for other jurisdictions is calculated at the rates prevailing in those jurisdictions.

	2017 53 weeks £m	2016 52 weeks £m
<b>Deferred tax in the income statement:</b>		
Accelerated capital allowances	5	7
Retirement benefit obligations	(6)	(4)
Rolled over and held over gains	4	10
Depreciated non-qualifying assets	1	2
Unrealised gains on revaluations	7	13
Tax losses – UK	(6)	(7)
Tax losses – overseas	(2)	(1)
Total deferred tax credit in the income statement	3	20

#### Taxation – other comprehensive income

	2017 53 weeks £m	2016 52 weeks £m
Deferred tax:		
Items that will not be reclassified subsequently to profit or loss:		
– Unrealised gains due to revaluations – revaluation reserve	(13)	(12)
– Unrealised gains due to revaluations – retained earnings	1	(11)
– Rolled over and held over gains – retained earnings	–	11
– Remeasurement of pension liability	(1)	(9)
	(13)	(21)
Items that may be reclassified subsequently to profit or loss:		
– Cash flow hedges:		
– (Gains)/losses arising during the period	(10)	11
– Reclassification adjustments for items included in profit or loss	(9)	(1)
	(19)	10
Total tax charge recognised in other comprehensive income	(32)	(11)

#### Tax relating to items recognised directly in equity

	2017 53 weeks £m	2016 52 weeks £m
Deferred tax:		
– Tax credit/(charge) related to share-based payments	1	(1)

#### Taxation – balance sheet

The deferred tax assets and liabilities recognised in the balance sheet are shown below:

	2017 £m	2016 £m
<b>Deferred tax liability:</b>		
Accelerated capital allowances	(32)	(37)
Rolled over and held over gains	(112)	(116)
Unrealised gains on revaluations	(176)	(171)
Depreciated non-qualifying assets	(4)	(5)
Total deferred tax liability	(324)	(329)
<b>Deferred tax asset:</b>		
Retirement benefit obligations (note 4.5)	50	57
Derivative financial instruments	50	69
Tax losses – UK	8	14
Tax losses – overseas	–	2
Share-based payments <sup>a</sup>	2	1
Total deferred tax asset	110	143
Total	(214)	(186)

a. Tax on share-based payments is recognised directly in equity in the statement of changes in equity.

## Notes to the financial statements

### Section 2 – Results for the year continued

#### 2.4 Taxation *continued*

##### Unrecognised tax allowances

At the balance sheet date the Group had unused tax allowances of £80m in respect of unclaimed capital allowances (2016 £66m) available for offset against future profits.

A deferred tax asset has not been recognised on tax allowances with a value of £14m (2016 £11m) because it is not certain that future taxable profits will be available in the company where these tax allowances arose against which the Group can utilise these benefits. These tax credits can be carried forward indefinitely.

##### Factors which may affect future tax charges

The Finance (No.2) Act 2015 was enacted on 18 November 2015 and reduced the main rate of corporation tax from 20% to 19% from 1 April 2017. 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 24 September 2016 and 30 September 2017.

#### 2.5 Earnings per share

Basic earnings per share (EPS) has been calculated by dividing the profit or loss for the period by the weighted average number of ordinary shares in issue during the period, excluding own shares held by employee share trusts.

For diluted earnings per share, the weighted average number of ordinary shares is adjusted to assume conversion of all dilutive potential ordinary shares.

Adjusted earnings per ordinary share amounts are presented before adjusted items (see note 2.2) in order to allow a better understanding of the adjusted trading performance of the Group.

	Profit £m	Basic EPS pence per ordinary share	Diluted EPS pence per ordinary share
<b>53 weeks ended 30 September 2017:</b>			
Profit/EPS	63	15.1p	15.0p
Adjusted items, net of tax	83	19.8p	19.8p
Adjusted profit/EPS	146	34.9p	34.8p
<b>52 weeks ended 24 September 2016:</b>			
Profit/EPS	89	21.6p	21.6p
Adjusted items, net of tax	55	13.3p	13.3p
Adjusted profit/EPS	144	34.9p	34.9p

The weighted average number of ordinary shares used in the calculations above are as follows:

	2017 53 weeks m	2016 52 weeks m
For basic EPS calculations	418	413
Effect of dilutive potential ordinary shares:		
– Contingently issuable shares	1	–
For diluted EPS calculations	419	413

At 30 September 2017, 3,124,559 (2016 2,697,038) other share options were outstanding that could potentially dilute basic EPS in the future but were not included in the calculation of diluted EPS as they are anti-dilutive for the periods presented.

## Notes to the financial statements

### Section 3 – Operating assets and liabilities

#### 3.1 Property, plant and equipment

##### Accounting policies

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

The majority of the Group's freehold and long leasehold licensed land and buildings are revalued annually and are therefore held at fair value less depreciation.

Short leasehold buildings (leases with an unexpired lease term of less than 50 years), unlicensed land and buildings and fixtures, fittings and equipment are held at cost less depreciation and impairment.

All land and buildings are disclosed as a single class of asset within the property, plant and equipment table, as we do not consider the short leasehold and unlicensed buildings to be material for separate disclosure.

Non-current assets held for sale are held at their carrying value or their fair value less costs to sell where this is lower.

##### *Depreciation*

Depreciation is charged to the income statement on a straight-line basis to write off the cost less residual value over the estimated useful life of an asset and commences when an asset is ready for its intended use. Expected useful lives and residual values are reviewed each year and adjusted if appropriate.

Freehold land is not depreciated.

Freehold and long leasehold buildings are depreciated so that the difference between their carrying value and estimated residual value is written off over 50 years from the date of acquisition. The residual value of freehold and long leasehold buildings is reassessed each year and is estimated to be equal to the fair value determined in the annual valuation and therefore no depreciation charge is recognised.

Short leasehold buildings, and associated fixtures, fittings and equipment, are depreciated over the shorter of the estimated useful life and the unexpired term of the lease.

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

Information technology equipment	3 to 7 years
Fixtures and fittings	3 to 20 years

At the point of transfer to non-current assets held for sale, depreciation ceases. Should an asset be subsequently reclassified to property, plant and equipment, the depreciation charge is calculated to reflect the cumulative charge had the asset not been reclassified.

##### *Disposals*

Profits and losses on disposal of property, plant and equipment are calculated as the difference between the net sales proceeds and the carrying amount of the asset at the date of disposal.

##### *Revaluation*

The revaluation utilises valuation multiples, which are determined via third-party inspection of 20% of the sites such that all sites are individually valued approximately every five years; and estimates of fair maintainable trade (FMT); and estimated resale value of tenant's fixtures and fittings. Properties are valued as fully operational entities, to include fixtures and fittings but excluding stock and personal goodwill. The value of tenant's fixtures and fittings is then removed from this valuation via reference to its associated resale value. Where sites have been impacted by expansionary capital investment in the preceding 12 months, the prior year FMT is considered to represent the most appropriate maintainable profit of the site as the current year trading performance includes a period of closure.

Valuation multiples derived via third-party inspections determine brand standard multiples which are then used to value the remainder of the non-inspected estate via an extrapolation exercise, with the output of this exercise reviewed at a high level by the Directors and the third-party valuer.

Surpluses which arise from the revaluation exercise are included within other comprehensive income (in the revaluation reserve) unless they are reversing a revaluation adjustment which has been recognised in the income statement previously; in which case an amount equal to a maximum of that recognised in the income statement previously is recognised in income. Where the revaluation exercise gives rise to a deficit, this is reflected directly within the income statement, unless it is reversing a previous revaluation surplus against the same asset; in which case an amount equal to the maximum of the revaluation surplus is recognised within other comprehensive income (in the revaluation reserve).

##### *Impairment*

Short leasehold and unlicensed properties are reviewed on an outlet basis for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised whenever the carrying amount of an outlet exceeds its recoverable amount. The recoverable amount is the higher of an outlet's fair value less costs to sell and value in use. Any changes in outlet earnings, or cash flows, the discount rate applied to those cash flows, or the estimate of sales proceeds could give rise to an additional impairment loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised as income immediately. An impairment reversal is only recognised where there is a change in the estimates used to determine recoverable amounts, not where it results from the passage of time.

## Notes to the financial statements

### Section 3 – Operating assets and liabilities continued

#### 3.1 Property, plant and equipment continued

##### Critical accounting judgements

The revaluation methodology is determined using management judgement, with advice from third-party valuers. The application of a valuation multiple to the fair maintainable trade of each site is considered the most appropriate method for the Group to determine the fair value of licensed land and buildings. Where the value of land and buildings derived purely from a multiple applied to the fair maintainable trade misrepresents the underlying asset value, due to low levels of income or location characteristics, a spot valuation is applied.

Management also use judgement to determine the most appropriate method of reviewing short leasehold and unlicensed properties for impairment. When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations by applying growth rates to determine future cash flows and discounting at an appropriate rate.

##### Critical accounting estimates

The application of the valuation methodology requires two critical accounting estimates; the estimation of valuation multiples, which are determined via third-party inspections; and an estimate of fair maintainable trade, including reference to historic and future projected income levels. A sensitivity analysis of changes in valuation multiples and FMT, in relation to the properties to which these estimates apply, is provided on page 113. The carrying value of properties to which these estimates apply is £4,230m (2016 £4,217m).

#### Property, plant and equipment

Property, plant and equipment can be analysed as follows:

	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
<b>Cost or valuation</b>			
At 26 September 2015 (restated*)	3,762	1,073	4,835
Exchange differences	3	3	6
Additions (restated*)	39	128	167
Disposals <sup>a</sup> (restated*)	(3)	(92)	(95)
Revaluation/(impairment)	133	(5)	128
At 24 September 2016 (restated*)	3,934	1,107	5,041
Additions	43	120	163
Disposals <sup>a</sup>	(7)	(73)	(80)
Transfers to assets held for sale	(30)	(25)	(55)
Revaluation/(impairment)	13	(11)	2
<b>At 30 September 2017</b>	<b>3,953</b>	<b>1,118</b>	<b>5,071</b>
<b>Depreciation</b>			
At 26 September 2015 (restated*)	69	524	593
Exchange differences	2	2	4
Provided during the period (restated*)	7	104	111
Disposals <sup>a</sup> (restated*)	(1)	(89)	(90)
At 24 September 2016	77	541	618
Provided during the period	6	107	113
Disposals <sup>a</sup>	(5)	(72)	(77)
Transfers to assets held for sale	–	(12)	(12)
<b>At 30 September 2017</b>	<b>78</b>	<b>564</b>	<b>642</b>
<b>Net book value</b>			
<b>At 30 September 2017</b>	<b>3,875</b>	<b>554</b>	<b>4,429</b>
At 24 September 2016 (restated*)	3,857	566	4,423
At 26 September 2015 (restated*)	3,693	549	4,242

\* An amount of £48m (cost of £88m less depreciation of £40m) as at 24 September 2016 and £45m (cost of £81m less depreciation of £36m) as at 26 September 2015, has been reclassified to fixtures, fittings and equipment from land and buildings. This reclassification has no impact on the total value of property, plant and equipment.

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

Certain assets with a net book value of £44m (2016 £43m) owned by the Group are subject to a fixed charge in respect of liabilities held by the Mitchells & Butlers Executive Top-Up Scheme (MABETUS).

Cost at 30 September 2017 includes £10m (2016 £11m) of assets in the course of construction.

### Revaluation of freehold and long leasehold properties

The freehold and long leasehold properties have been valued at market value, as at 30 September 2017 using information provided by CBRE, independent chartered surveyors. The valuation was carried out in accordance with the provisions of RICS Appraisal and Valuation Standards ('The Red Book') assuming each asset is sold as part of the continuing enterprise in occupation individually as a fully operational trading entity. The market value has been determined having regard to factors such as current and future projected income levels, taking account of location, quality of the pub restaurant and recent market transactions in the sector.

### Sensitivity analysis

Changes in either the FMT or the multiple could materially impact the valuation of the freehold and long leasehold properties. It is estimated that, given the multiplier effect, a 2.5% change in the EBITDA of the freehold or long leasehold properties would generate an approximate £70m movement in their valuation. It is estimated that a 0.1 change in the multiple would generate an approximate £31m movement in valuation.

### Impairment review of short leasehold and unlicensed properties

Short leasehold and unlicensed properties (comprising land and buildings and fixtures, fittings and equipment) which are not revalued to fair market value, are reviewed for impairment by comparing site value in use calculations to their carrying values. The value in use calculation uses forecast trading performance cash flows, which are discounted by applying a pre-tax discount rate of 7% (2016 7%). Any resulting impairment relates to sites with poor trading performance, where the output of the value in use calculation is insufficient to justify their current net book value.

Current year valuations have been incorporated into the financial statements and the resulting revaluation adjustments have been taken to the revaluation reserve or income statement as appropriate. The impact of the revaluations/impairments described above is as follows:

	2017 53 weeks £m	2016 52 weeks £m
<b>Income statement</b>		
Revaluation loss charged as an impairment	(109)	(144)
Reversal of past impairments	58	64
Total impairment arising from the revaluation	(51)	(80)
Impairment of short leasehold and unlicensed properties	(17)	(8)
Impairment of assets held for sale	(4)	–
	(72)	(88)
<b>Revaluation reserve</b>		
Unrealised revaluation surplus	210	329
Reversal of past revaluation surplus	(136)	(113)
	74	216
<b>Net increase in property, plant and equipment</b>	<b>2</b>	<b>128</b>

The valuation techniques are consistent with the principles in IFRS 13 and use significant unobservable inputs such that the fair value measurement of each property within the portfolio has been classified as Level 3 in the fair value hierarchy.

The key inputs to valuation on property, plant and equipment are as follows:

	Number of pubs	Land and buildings £m	Fixtures, fittings and equipment £m	Net book value <sup>a</sup> £m
<b>30 September 2017</b>				
Freehold properties	1,339	3,512	426	3,938
Long leasehold properties	95	256	36	292
Total revalued properties	1,434	3,768	462	4,230
Short leasehold properties		86	84	170
Unlicensed properties		14	2	16
Other non-pub assets		1	2	3
Assets under construction		6	4	10
Total property, plant and equipment		3,875	554	4,429

## Notes to the financial statements

### Section 3 – Operating assets and liabilities continued

#### 3.1 Property, plant and equipment continued

	Number of pubs	Land and buildings £m	Fixtures, fittings and equipment £m	Net book value <sup>a</sup> £m
24 September 2016				
Freehold properties	1,411	3,490	437	3,927
Long leasehold properties	98	256	34	290
Total revalued properties	1,509	3,746	471	4,217
Short leasehold properties		91	86	177
Unlicensed properties		13	2	15
Other non-pub assets		1	2	3
Assets under construction		6	5	11
Total property, plant and equipment		3,857	566	4,423

a. The carrying value of freehold and long leasehold properties based on their historical cost (or deemed cost at transition to IFRS) is £2,625m and £188m respectively (2016 £2,683m and £191m).

The tables below show, by class of asset, the number of properties that have been valued within each FMT and multiple banding:

30 September 2017	Valuation multiple applied to FMT					Total
	Over 12 times	10 to 12 times	8 to 10 times	6 to 8 times	Under 6 times	
Number of pubs in each FMT income banding:						
< £200k pa	46	11	153	190	12	412
£200k to £360k pa	–	11	315	141	13	480
> £360k pa	2	52	406	59	23	542
	48	74	874	390	48	1,434

24 September 2016	Valuation multiple applied to FMT					Total
	Over 12 times	10 to 12 times	8 to 10 times	6 to 8 times	Under 6 times	
Number of pubs in each FMT income banding:						
< £200k pa	47	12	195	231	9	494
£200k to £360k pa	2	13	358	131	3	507
> £360k pa	1	55	397	54	1	508
	50	80	950	416	13	1,509

Year-on-year movements in valuation multiples are the result of changes in property market conditions. The average weighted multiple is 8.5 (2016 8.6).

Included within property, plant and equipment are assets with a net book value of £3,808m (2016 £3,780m), which are pledged as security for the securitisation debt and over which there are certain restrictions on title.

In addition to the above, premiums paid on acquiring a new lease are classified separately in the balance sheet. At 30 September 2017 an amount of £1m (2016 £2m) was included in the balance sheet.

#### Assets held for sale

	2017 £m	2016 £m
Properties	1	–

In accordance with IFRS 5, properties categorised as held for sale are held at the lower of book value and fair value less costs to sell.

During the period, £43m of properties were classified as held for sale. An impairment of £4m was recognised prior to reclassification.

Subsequently, £42m of properties have been sold, leaving £1m remaining as held for sale at the balance sheet date.

#### Capital commitments

	2017 £m	2016 £m
Contracts placed for expenditure on property, plant and equipment not provided for in the financial statements	23	23

### 3.2 Working capital

#### Inventories

##### Accounting policy

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Work in progress is in respect of property development activities and includes the direct costs of the developments and associated professional fees.

Inventories can be analysed as follows:

	2017 £m	2016 £m
Work in progress	–	1
Goods held for resale	24	24
Total inventories	24	25

#### Trade and other receivables

##### Accounting policy

Trade and other receivables are recognised and carried at original cost less an allowance for any uncollectable amounts.

Trade and other receivables can be analysed as follows:

	2017 £m	2016 £m
Trade receivables	5	4
Other receivables	15	14
Prepayments	33	14
Total trade and other receivables	53	32

All amounts fall due within one year.

Trade and other receivables are non-interest bearing and are classified as loans and receivables and are therefore held at amortised cost. Trade and other receivables past due and not impaired are immaterial and therefore no further analysis is presented. The Directors consider that the carrying amount of trade and other receivables approximately equates to their fair value.

Credit risk is considered in note 4.4.

#### Trade and other payables

##### Accounting policy

Trade and other payables are recognised at original cost.

Trade and other payables can be analysed as follows:

	2017 £m	2016 £m
Trade payables	80	96
Other taxation and social security	70	73
Accrued charges	102	94
Other payables	45	30
Total trade and other payables	297	293

Current trade and other payables are non-interest bearing. The Directors consider that the carrying amount of trade and other payables approximately equates to their fair value.

### 3.3 Provisions

##### Accounting policy

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are measured using the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

Onerous property provisions represent the expected unavoidable losses on onerous and vacant property leases and comprise the lower of the net rent payable or the operating loss after rental costs. The provision is calculated on a site by site basis with a provision being made for the remaining lease term, where a lease is considered to be onerous. Other contractual dilapidations costs are also recorded as provisions as appropriate.

##### Critical accounting judgements

Determination of whether a loss is unavoidable requires areas of judgement such as consideration of potential future investment decisions, local conditions which may be impacting on current performance and the opportunity to surrender a lease back to the landlord.

## Notes to the financial statements

### Section 3 – Operating assets and liabilities continued

#### 3.3 Provisions continued

##### Critical accounting estimates

In relation to onerous property provisions, estimates are required in determining the future EBITDA performance of each site and the potential to exit leases earlier than the expiry date. A sensitivity analysis of changes in these estimates is provided below. The value of provisions to which these estimates apply is £42m (2016 £9m).

##### Provisions

The provision for unavoidable losses on onerous property leases has been set up to cover rental payments of vacant or loss-making properties. Payments are expected to continue on these properties for periods of 1 to 19 years.

Provisions can be analysed as follows:

	Property leases £m
At 26 September 2015	10
Released in the period	(2)
Provided in the period	5
Unwinding of discount	–
Utilised in the period	(4)
At 24 September 2016	9
Released in the period <sup>a</sup>	(1)
Provided in the period <sup>b</sup>	36
Unwinding of discount	1
Utilised in the period	(3)
<b>At 30 September 2017</b>	<b>42</b>

a. Releases in the period primarily relate to property disposals. This has been recognised within adjusted profit to reflect where the charge for these properties was originally recognised.

b. During the period, a full review of estate strategy in relation to managed leasehold properties has been completed, with specific focus on the challenges around loss-making sites and those located on retail and leisure parks. With lower footfall on many of these parks and the continued uncertain economic outlook, alongside increased cost pressures such as living wage, business rates review, apprenticeship levy, sugar tax and food price inflation, a number of short leasehold sites are now challenged when striving to achieve a break-even profit performance. As a result, the losses are now considered unavoidable for the remaining committed lease term for managed properties. In addition, the discount rate applied in the calculation has been updated. As a result of these changes, a £35m increase in the provision which has been included as a separately disclosed item (see note 2.2). The remaining increase of £1m is recognised within adjusted profit, as this represents unavoidable losses on unlicensed properties. There is no change in approach for these sites from the prior period.

##### Sensitivity analysis

Changes in the EBITDA performance of each site could impact on the value of the provision. It is estimated that, a 10% decline in the EBITDA performance of the sites included in the provision would generate an additional provision of £2m.

It is also estimated that, should all leases with more than ten years remaining on the committed lease term be exited two years ahead of expiry, the provision would reduce by £3m.

#### 3.4 Goodwill and other intangible assets

##### Accounting policies

###### Business combinations and goodwill

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values of assets given and liabilities incurred or assumed by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the income statement as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits (revised) respectively; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the identifiable assets acquired and the liabilities assumed at the acquisition date. If, after reassessment, the net of the identifiable assets acquired and liabilities assumed at the acquisition date exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree, the excess is recognised immediately in the income statement as a bargain purchase.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the contingent consideration

transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates, at fair value, with the corresponding gain or loss being recognised in the income statement.

When a business combination is achieved in stages, the Group's previously-held interests in the acquired entity is re-measured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in the income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Goodwill is not amortised, but is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. The impairment review requires management to consider the recoverable value of the business to which the goodwill relates, based on either the fair value less costs to sell or the value in use. Value in use calculations require management to consider the net present value of future cash flows generated by the business to which the goodwill relates. Fair value less costs to sell is based on management's estimate of the net proceeds which could be generated through disposing of that business. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss is recognised immediately in the income statement and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

#### Computer software

Computer software and associated development costs, which are not an integral part of a related item of hardware, are capitalised as an intangible asset and amortised on a straight-line basis over their useful life. The period of amortisation ranges between three and seven years with the majority being five years.

### Intangible assets

Intangible assets can be analysed as follows:

	Goodwill £m	Computer software £m	Total £m
<b>Cost</b>			
At 26 September 2015	7	10	17
Additions	–	1	1
At 24 September 2016	7	11	18
Additions	–	3	3
<b>At 30 September 2017</b>	<b>7</b>	<b>14</b>	<b>21</b>
<b>Accumulated amortisation and impairment</b>			
At 26 September 2015	5	2	7
Provided during the period	–	2	2
At 24 September 2016	5	4	9
Provided during the period	–	2	2
<b>At 30 September 2017</b>	<b>5</b>	<b>6</b>	<b>11</b>
<b>Net book value</b>			
<b>At 30 September 2017</b>	<b>2</b>	<b>8</b>	<b>10</b>
At 24 September 2016	2	7	9
At 26 September 2015	2	8	10

There are no intangible assets with indefinite useful lives. All amortisation charges have been expensed through operating costs.

Goodwill has been tested for impairment on a site-by-site basis using forecast cash flows, discounted by applying a pre-tax discount rate of 7% (2016 7%). For the purposes of the calculation of the recoverable amount, the cash flow projections beyond the two year period include 2% (2016 2%) growth per annum.

## Notes to the financial statements

### Section 4 – Capital structure and financing costs

#### 4.1 Net debt

##### Accounting policy

##### 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. In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand.

##### Net debt

	2017 £m	2016 £m
Cash and bank balances	147	158
Cash and cash equivalents	147	158
Other cash deposits	120	120
Securitised debt (note 4.2)	(1,909)	(1,995)
Liquidity facility (note 4.2)	(147)	(147)
Revolving credit facilities (note 4.2)	(6)	(31)
Derivatives hedging balance sheet debt <sup>a</sup> (note 4.2)	45	55
	<b>(1,750)</b>	<b>(1,840)</b>

a. Represents the element of the fair value of currency swaps hedging the balance sheet value of the Group's US\$ denominated A3N loan notes. This amount is disclosed separately to remove the impact of exchange movements which are included in the securitised debt amount.

##### Movement in net debt

	2017 53 weeks £m	2016 52 weeks £m
<b>Net decrease in cash and cash equivalents</b>	<b>(11)</b>	<b>(7)</b>
Add back cash flows in respect of other components of net debt:		
Repayment of principal in respect of securitised debt	77	67
Net movement on unsecured revolving facilities	25	(31)
<b>Decrease in net debt arising from cash flows</b>	<b>91</b>	<b>29</b>
Movement in capitalised debt issue costs net of accrued interest	(1)	(1)
<b>Decrease in net debt</b>	<b>90</b>	<b>28</b>
Opening net debt	(1,840)	(1,870)
Foreign exchange movements on cash	–	2
<b>Closing net debt</b>	<b>(1,750)</b>	<b>(1,840)</b>

#### 4.2 Borrowings

##### Accounting policy

Borrowings, which include the Group's secured loan notes, 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. Borrowing costs are not attributed to the acquisition or construction of assets and therefore no costs are capitalised within property, plant and equipment.

Borrowings can be analysed as follows:

	2017 £m	2016 £m
<b>Current</b>		
Securitised debt <sup>a,b</sup>	82	75
Liquidity facility	147	147
Unsecured revolving credit facilities	6	31
Total current	235	253
<b>Non-current</b>		
Securitised debt <sup>a,b</sup>	1,827	1,920
Total borrowings	2,062	2,173

a. Further details of the assets pledged as security against the securitised debt are given on page 113.

b. Stated net of deferred issue costs.

	2017 £m	2016 £m
<b>Analysis by year of repayment</b>		
Due within one year or on demand	235	253
Due between one and two years	130	137
Due between two and five years	307	285
Due after five years	1,390	1,498
Total borrowings	2,062	2,173

### Securitised debt

On 13 November 2003, the 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 Group completed a further debt ('tap') issue to borrow an additional £655m and refinance £450m of existing debt at lower cost.

The loan notes consist of 10 tranches as follows:

Tranche	Initial principal borrowed £m	Interest	Principal repayment period (all by instalments)	Effective interest rate %	Principal outstanding		Expected WAL <sup>a</sup>
					30 September 2017 £m	24 September 2016 £m	
A1N	200	Floating	2011 to 2028	6.21 <sup>b</sup>	142	152	6 years
A2	550	Fixed-5.57%	2003 to 2028	6.01	258	276	6 years
A3N	250	Floating	2011 to 2028	6.29 <sup>b</sup>	177 <sup>c</sup>	189 <sup>c</sup>	6 years
A4	170	Floating	2016 to 2028	5.97 <sup>b</sup>	159	168	6 years
AB	325	Floating	2020 to 2032	5.74 <sup>b</sup>	325	325	11 years
B1	350	Fixed-5.97%	2003 to 2023	6.12	119	135	3 years
B2	350	Fixed-6.01%	2015 to 2028	6.12	327	339	7 years
C1	200	Fixed-6.47%	2029 to 2030	6.56	200	200	12 years
C2	50	Floating	2033 to 2034	6.47 <sup>b</sup>	50	50	16 years
D1	110	Floating	2034 to 2036	6.68 <sup>b</sup>	110	110	18 years
	2,555				1,867	1,944	

a. Expected weighted average life (WAL) assumes no early redemption in respect of any loan notes.

b. After the effect of interest rate swaps.

c. A3N notes are US\$ notes which are shown as translated to sterling at the hedged swap rate. Values at the period end spot rate are £222m (2016 £244m). Therefore the exchange difference on the A3N notes is £45m (2016 £55m).

The notes are secured on the majority of the Group's property and future income streams therefrom. 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 US\$ 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 6.1% (2016 6.1%) after taking account of interest rate hedging and the cost of the provision of a financial guarantee provided by Ambac in respect of the Class A and AB notes.

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 30 September 2017, Mitchells & Butlers Retail Limited had cash and cash equivalents of £97m (2016 £103m). Of this amount £1m (2016 £36m), 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.

## Notes to the financial statements

### Section 4 – Capital structure and financing costs continued

#### 4.2 Borrowings continued

The carrying value of the securitised debt in the Group balance sheet is analysed as follows:

	2017 £m	2016 £m
Principal outstanding at beginning of period	1,998	2,031
Principal repaid during the period	(77)	(67)
Exchange on translation of dollar loan notes	(10)	34
Principal outstanding at end of period	1,911	1,998
Deferred issue costs	(6)	(7)
Accrued interest	4	4
Carrying value at end of period	1,909	1,995

#### Liquidity facility

Under the terms of the securitisation, the Group holds a liquidity facility of £295m provided by two counterparties. As a result of the decrease in credit rating of one of the counterparties, the Group was obliged to draw that counterparty's portion of the facility during the 52 weeks ended 27 September 2014. The amount drawn at 30 September 2017 is £147m (24 September 2016 £147m). These funds are charged under the terms of the securitisation and are not available for use in the wider Group.

The facility, which is not available for any other purpose, is sized to cover 18 months debt service.

#### Unsecured revolving credit facilities

The Group holds three unsecured committed revolving credit facilities of £50m each, and uncommitted revolving credit facilities of £15m, available for general corporate purposes. The amount drawn at 30 September 2017 is £6m (2016 £31m). All committed facilities expire on 31 December 2020.

#### 4.3 Finance costs and revenue

	2017 53 weeks £m	2016 52 weeks £m
<b>Finance costs</b>		
Interest on securitised debt	(120)	(121)
Interest on other borrowings	(4)	(5)
Unwinding of discount on provisions	(1)	–
Total finance costs	(125)	(126)
<b>Finance revenue</b>		
Interest receivable – cash	1	1
<b>Net pensions finance charge (note 4.5)</b>	(7)	(12)

#### 4.4 Financial instruments

##### Accounting policies

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

##### Financial assets

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

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 assets and is determined at the time of initial recognition.

##### Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the instrument have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the agreed credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

#### **Financial liabilities**

Financial liabilities are classified as either 'borrowings at amortised cost' or 'other financial liabilities'.

The borrowings accounting policy is provided in note 4.2. Other financial liabilities are initially measured at fair value, net of transaction costs.

#### **Derecognition of financial assets and liabilities**

The Group 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 Group does not retain substantially all the risks and rewards of ownership but continues to control a transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The Group derecognises financial liabilities when, and only when, the Group'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 interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (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) through the expected life of the debt instrument, or where appropriate, a shorter period, to the net carrying amount on initial recognition. Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

#### **Derivative financial instruments and hedge accounting**

The Group uses interest rate and currency swap contracts to hedge its exposure to changes in interest rates and exchange rates. These contracts are designated as cash flow hedges and hedge accounting is applied where the necessary criteria under IAS 39 Financial Instruments: Recognition and Measurement are met. Derivative financial instruments are not used for trading or speculative purposes.

Derivative financial instruments are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates. Fair value is calculated as the present value of the estimated future cash flows at a rate that reflects the credit risk of various counterparties.

Changes in the fair value of derivative instruments that are designated and effective as hedges of highly probable future cash flows are recognised in equity. The cumulative gain or loss is transferred from equity and recognised in the income statement at the same time as the hedged transaction affects profit or loss. The ineffective part of any gain or loss is recognised in the income statement immediately.

Movements in the fair value of derivative instruments which do not qualify for hedge accounting are recognised in the income statement immediately.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or no longer qualifies for hedge accounting. At that point, the cumulative gain or loss in equity remains in equity and is recognised in accordance with the above policy when the transaction affects profit or loss. If the hedged transaction is no longer expected to occur, the cumulative gain or loss recognised in equity is recognised in the income statement immediately.

#### **Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all liabilities. Equity instruments issued by the Company are recorded at the fair value of the proceeds received, net of direct issue costs.

## Notes to the financial statements

### Section 4 – Capital structure and financing costs continued

#### 4.4 Financial instruments continued

##### Financial risk management

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.

An explanation of the Group's financial instrument risk management objectives and strategies is set out below.

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.

##### Funding and liquidity risk

In order to ensure that the Group's long-term funding strategy is aligned with its strategic objectives, the Treasury Committee regularly assesses the maturity profile of the Group's debt, alongside the prevailing financial projections. This enables it to ensure that funding levels are appropriate to support the Group's plans.

The current funding arrangements of the Group consist of the securitised notes issued by Mitchells & Butlers Finance plc (and associated liquidity facility) along with three committed unsecured revolving credit facilities of £50m each. The terms of the securitisation and the revolving credit facilities contain various financial covenants. Compliance with these covenants is monitored by Group Treasury. The Group also has uncommitted revolving credit facilities of £15m.

The Group prepares a rolling daily cash forecast covering a six week period and an annual cash forecast by period. These forecasts are reviewed on a daily basis and are used to manage the investment and borrowing requirements of the Group. A combination of cash pooling and zero balancing agreements are in place to ensure the optimum liquidity position is maintained. The Group maintains sufficient cash balances or committed facilities outside the securitisation to ensure that it can meet its medium-term anticipated cash flow requirements.

The maturity table below details the contractual undiscounted cash flows (both principal and interest) for the Group's financial liabilities, after taking into account the effect of interest rate swaps.

	Within 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	More than 5 years £m	Total £m
<b>30 September 2017<sup>a</sup></b>							
Fixed rate:							
Securitised debt <sup>b</sup>	(194)	(193)	(197)	(199)	(199)	(1,879)	(2,861)
Floating rate:							
Liquidity facility	(147)	–	–	–	–	–	(147)
Unsecured revolving credit facilities	(6)	–	–	–	–	–	(6)
Trade and other payables	(297)	–	–	–	–	–	(297)
<b>24 September 2016<sup>a</sup></b>							
Fixed rate:							
Securitised debt <sup>b</sup>	(194)	(194)	(193)	(197)	(199)	(2,078)	(3,055)
Floating rate:							
Liquidity facility	(147)	–	–	–	–	–	(147)
Unsecured revolving credit facilities	(31)	–	–	–	–	–	(31)
Trade and other payables	(293)	–	–	–	–	–	(293)

a. Assumes no early redemption in respect of any loan notes.

b. Includes the impact of the cash flow hedges.

##### Credit risk

The Group Treasury function enters into contracts with third parties in respect of derivative financial instruments for risk management purposes and the investment of surplus funds. These activities expose the Group to credit risk against the counterparties. To mitigate this exposure, Group Treasury 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 Treasury Committee on a four-weekly basis.

Included in other receivables are amounts due from certain Group suppliers. Included in trade and other payables at the period end are amounts due to some of these suppliers. This reduces the Group's credit exposure.

The Group's credit exposure at the balance sheet date was:

	2017 £m	2016 £m
Cash and cash equivalents	147	158
Other cash deposits	120	120
Trade receivables	5	4
Other receivables	15	14
Derivatives	43	53

### Capital management

The Group's capital base is comprised of its net debt (analysed in note 4.1) plus total equity (disclosed on the face of the Group balance sheet). The objective is to maintain a capital base which is sufficiently strong to support the ongoing development of the business as a going concern, including the amenity, and cash flow generation of the pub estate. By keeping debt (see also 'Funding and liquidity risk' above) and headroom against its debt facilities at an appropriate level, the Group ensures that it maintains a strong credit position, whilst maximising value for shareholders and adhering to its covenants and other restrictions associated with its debt (see note 4.2). In managing its capital structure, from time to time the Group may realise value from non-core assets, buy back or issue new shares, initiate and vary its dividend payments and seek to vary or accelerate debt repayments. The Group's policy is to ensure that the maturity of its debt profile supports its strategic objectives. The Board considers the latest covenant compliance, headroom projections and projected balance sheet positions periodically throughout the year, based on the advice of the Treasury Committee which meets on a four-weekly basis. The Treasury Committee is chaired by the Group Treasurer and monitors Treasury performance and compliance with Board-approved policies. The Group Finance Director is also a member of the Committee.

Total capital at the balance sheet date is as follows:

	2017 £m	2016 £m
Net debt (note 4.1)	1,750	1,840
Total equity	1,626	1,408
Total capital	3,376	3,248

### Market risk

The Group 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 comprises foreign currency and interest rate risk.

#### Foreign currency risk

The Group faces currency risk in two main areas:

At issuance of the Class A3N floating rate notes, the Group entered into a cross currency interest rate swap to manage the foreign currency exposure resulting from both the US\$ principal and initial interest elements of the notes. The A3N notes form part of the securitised debt (see note 4.2).

Further to the step-up on the A3N notes on 15 December 2010, the Group has additional foreign currency exposure as a result of the increase in US\$ finance costs. A movement of 10% in the US\$ exchange rate would have £nil (2016 £nil) impact on the reported Group profit and £22m (2016 £25m) impact on the reported Group net assets.

The Group has no significant profit and loss exposure as a result of retranslating monetary assets and liabilities at different exchange rates. As the Group is predominantly UK based and acquires the majority of its supplies in sterling, it has no significant direct currency exposure from its operations.

#### Interest rate risk

The Group 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. Where the necessary criteria are met, the Group minimises the volatility in its financial statements through the adoption of the hedge accounting provisions permitted under IAS 39. The interest rate exposure resulting from the Group's £1.9bn securitisation is largely 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 effective interest rate swaps are held, which are eligible for hedge accounting.

The sensitivity analysis below has been calculated based on the Group's exposure to interest rates for both derivative and non-derivative instruments as at the balance sheet date. For floating rate liabilities, which are not hedged by derivative instruments, the analysis has been prepared assuming that the liability outstanding at the balance sheet date was outstanding for the whole period. For interest income the analysis assumes that cash and cash equivalents and other cash deposits that were held in interest bearing accounts at the balance sheet date were held for the whole period. A 100 basis point movement is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

## Notes to the financial statements

### Section 4 – Capital structure and financing costs continued

#### 4.4 Financial instruments continued

	2017 £m	2016 £m
Interest income <sup>a</sup>	2	2
Interest expense <sup>b</sup>	(2)	(2)
Profit impact	–	–
Derivative financial instruments (fair values) <sup>c</sup>	86	98
Total equity	86	98

a. Represents interest income earned on cash and cash equivalents and other cash deposits (these are defined in note 4.1).

b. The element of interest expense which is not matched by payments and receipts under cash flow hedges which would otherwise offset the interest rate exposure of the Group.

c. The impact on total equity from movements in the fair value of cash flow hedges.

#### Derivative financial instruments

##### Cash flow hedges

Changes in cash flow hedge fair values are recognised in the hedging reserve in equity to the extent that the hedges are effective. The cash flow hedges detailed below have been assessed as being highly effective during the period and are expected to remain highly effective over the remaining contract lives.

During the period a gain of £60m (2016 loss of £116m) on cash flow hedges was recognised in equity. A loss of £53m (2016 loss of £8m) was recycled from equity and included in the Group income statement for the period.

##### Cash flow hedges – securitised borrowings

At 30 September 2017, the Group held 10 (2016 10) interest rate swap contracts with a nominal value of £963m (2016 £994m), designated as a hedge of the cash flow interest rate risk of £963m (2016 £994m) of the Group's floating rate borrowings, comprising the A1N, A3N, A4, AB, C2 and D1 loan notes.

The cash flows on these contracts occur quarterly, receiving a floating rate of interest based on LIBOR and paying a fixed rate of 4.8558% (2016 4.8625%). The contract maturity dates match those of the hedged item. The 10 interest rate swaps are held on the balance sheet at fair market value, which is a liability of £292m (2016 £404m).

At 30 September 2017 the Group held one (2016 one) cross currency interest rate swap contract, with a nominal value of £177m (2016 £189m), designated as a hedge of the cash flow interest rate and currency risk of the Group's A3N floating rate \$297m (2016 \$317m) borrowings. The cross currency interest rate swap is held on the balance sheet at a fair value asset of £43m (2016 £53m).

The cash flows on this contract occur quarterly, receiving a floating rate of interest based on US\$ LIBOR and paying a floating rate of interest at LIBOR in sterling.

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.

The fair values of the derivative financial instruments were measured at 30 September 2017 and may be subject to material movements in the period subsequent to the balance sheet date. The fair values of the derivative financial instruments are reflected on the balance sheet as follows:

	Derivative financial instruments – fair value				Total £m
	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	
<b>Cash flow hedges:</b>					
– Interest rate swaps	–	–	(43)	(249)	(292)
– Cross currency swap	41	2	–	–	43
<b>30 September 2017</b>	<b>41</b>	<b>2</b>	<b>(43)</b>	<b>(249)</b>	<b>(249)</b>
24 September 2016	52	1	(44)	(360)	(351)

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

	2017		2016	
	Book value £m	Fair value £m	Book value £m	Fair value £m
<b>Financial assets:</b>				
– Cash and cash equivalents	147	147	158	158
– Other cash deposits	120	120	120	120
– Derivative instruments in designated hedge accounting relationships	43	43	53	53
– Loans and receivables	20	20	18	18
<b>Financial liabilities:</b>				
– Borrowings at amortised cost	(2,062)	(2,076)	(2,173)	(2,167)
– Derivative instruments in designated hedge accounting relationships	(292)	(292)	(404)	(404)
– Other	(297)	(297)	(293)	(293)
	<b>(2,321)</b>	<b>(2,335)</b>	<b>(2,521)</b>	<b>(2,515)</b>

The various tranches of the securitised debt have been valued using period end quoted offer prices. As the securitised debt is traded on an active market, the market value represents the fair value of this debt. The fair value of interest rate and currency swaps is the estimated amount which the Group could expect to pay or receive on termination of the agreements. These amounts are based on quotations from counterparties which approximate to their fair market value and take into consideration interest and exchange 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.

#### Fair value of financial instruments

The fair value of the Group's derivative financial instruments is calculated by discounting the expected future cash flows of each instrument at an appropriate discount rate to a 'mark to market' position and then adjusting this to reflect any non-performance risk associated with the counterparties to the instrument.

IFRS 13 Financial Instruments requires the Group'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;
- Level 3 instruments use inputs that are unobservable.

The table below sets out the valuation basis of financial instruments held at fair value by the Group:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Fair value at 30 September 2017</b>				
<b>Financial assets:</b>				
Currency swaps	–	43	–	43
<b>Financial liabilities:</b>				
Interest rate swaps	–	(292)	–	(292)
	–	(249)	–	(249)
<b>Fair value at 24 September 2016</b>				
<b>Financial assets:</b>				
Currency swaps	–	53	–	53
<b>Financial liabilities:</b>				
Interest rate swaps	–	(404)	–	(404)
	–	(351)	–	(351)

## Notes to the financial statements

### Section 4 – Capital structure and financing costs continued

#### 4.5 Pensions

##### Accounting policy

Retirement and death benefits are provided for eligible employees in the United Kingdom principally by the Mitchells & Butlers Pension Plan (MABPP) and the Mitchells & Butlers Executive Pension Plan (MABEPP). These plans are funded, HMRC approved, occupational pension schemes with defined contribution and defined benefit sections. The defined benefit section of the plans is now closed to future service accrual. The defined benefit liability relates to these funded plans, together with an unfunded unapproved pension arrangement (the Executive Top-Up Scheme, or MABETUS) in respect of certain MABEPP members. The assets of the plans are held in self-administered trust funds separate from the Company's assets.

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

The total pension liability recognised in the balance sheet in respect of the Group's defined benefit arrangements is the greater of the minimum funding requirements, calculated as the present value of the agreed schedule of contributions, and the actuarial calculated liability. The actuarial liability is the present value of the defined benefit obligation, less the fair value of the scheme assets. The cost of providing benefits is determined using the projected unit credit method as determined annually by qualified actuaries. This is based on a number of financial assumptions and estimates, the determination of which may be significant to the balance sheet valuation in the event that this reflects a greater deficit than that suggested by the schedule of minimum contributions.

There is no current service cost as all defined benefit schemes are closed to future accrual. The net pension finance charge, calculated by applying the discount rate to the pension deficit or surplus at the beginning of the period, is shown within finance income or expense. The administration costs of the scheme are recognised within operating costs in the income statement.

Re-measurement comprising actuarial gains and losses, the effect of minimum funding requirements, and the return on scheme assets are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur.

Curtailments and settlements relating to the Group's defined benefit plan are recognised in the income statement in the period in which the curtailment or settlement occurs.

For the defined contribution arrangements, the charge against profit is equal to the amount of contributions payable for that period.

##### Critical accounting judgements

The calculation of the defined benefit liability requires management judgement to select an appropriate high-quality corporate bond to determine the discount rate.

#### Measurement of scheme assets and liabilities

##### Actuarial valuation

The actuarial valuations used for IAS 19 (revised) purposes are based on the results of the latest full actuarial valuation carried out at 31 March 2016 and updated by the schemes' independent qualified actuaries to 30 September 2017. Scheme assets are stated at market value at 30 September 2017 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. IAS 19 (revised) requires that the scheme liabilities are discounted using market yields at the end of the period on high-quality corporate bonds.

The principal financial assumptions used at the balance sheet date have been updated to reflect changes in market conditions in the period and are as follows:

	2017	2016
Pensions increases	<b>3.1%</b>	2.9%
Discount rate	<b>2.7%</b>	2.2%
Inflation rate	<b>3.2%</b>	3.0%

The mortality assumptions were reviewed following the 2016 actuarial valuation. A summary of the average life expectancies assumed is as follows:

	2017		2016	
	Main plan years	Executive plan years	Main plan years	Executive plan years
Male member aged 65 (current life expectancy)	<b>21.2</b>	<b>23.8</b>	21.7	25.9
Male member aged 45 (life expectancy at 65)	<b>22.9</b>	<b>25.5</b>	24.3	27.6
Female member aged 65 (current life expectancy)	<b>23.6</b>	<b>25.9</b>	24.1	27.1
Female member aged 45 (life expectancy at 65)	<b>25.4</b>	<b>27.8</b>	26.9	29.1

### Minimum funding requirements

The results of the 2016 actuarial valuation showed a funding deficit of £451m, using a more prudent basis to discount the scheme liabilities than is required by IAS 19 (revised). The Company has subsequently agreed recovery plans for both the Executive and Main schemes in order to close the funding deficit in respect of its pension liabilities. Agreement was reached with the Trustees in relation to the Executive plan on 30 June 2017 and the Main plan on 25 July 2017. In the intervening period, the Group continued to make contributions in line with the previous agreements. The new recovery plans show an unchanged level of cash contributions with no extension to the agreed payment term (£45m per annum indexed with RPI from 1 April 2016 subject to a minimum increase of 0% and maximum of 5%, until 31 March 2023). Under IFRIC 14, an additional liability is recognised, such that the overall pension liability at the period end reflects the schedule of contributions in relation to a minimum funding requirement, should this be higher than the actuarial deficit.

The employer contributions expected to be paid during the financial period ending 29 September 2018 amount to £47m.

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

### Sensitivity to changes in actuarial assumptions

The sensitivities regarding principal actuarial assumptions, assessed in isolation, that have been used to measure the scheme liabilities are set out below:

	Increase or (decrease) in actuarial deficit		Increase or (decrease) in total pension liability	
	2017 £m	2016 £m	2017 £m	2016 £m
0.1% increase in discount rate	(41)	(52)	(1)	(2)
0.1% points increase in inflation rate	36	49	1	2
Additional one-year increase to life expectancy	77	89	(1)	1

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated. In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior periods.

### Amounts recognised in respect of defined benefit schemes

The following amounts relating to the Group's defined benefit and defined contribution arrangements have been recognised in the Group income statement and Group statement of comprehensive income:

#### Group income statement

	2017 53 weeks £m	2016 52 weeks £m
Operating profit:		
Employer contributions (defined contribution plans)	(7)	(7)
Administrative costs (defined benefit plans)	(2)	(2)
Charge to operating profit	(9)	(9)
Finance costs:		
Net pensions finance charge on actuarial deficit	(4)	(3)
Additional pensions finance charge due to minimum funding	(3)	(9)
Net finance charge in respect of pensions	(7)	(12)
Total charge	(16)	(21)

#### Group statement of comprehensive income

	2017 53 weeks £m	2016 52 weeks £m
Return on scheme assets and effects of changes in assumptions	337	(148)
Movement in pension liability recognised due to minimum funding	(329)	126
Remeasurement of pension liability	8	(22)

## Notes to the financial statements

### Section 4 – Capital structure and financing costs continued

#### 4.5 Pensions continued

##### Group balance sheet

	2017 £m	2016 £m
Fair value of scheme assets	2,390	2,381
Present value of scheme liabilities	(2,219)	(2,587)
Actuarial surplus/(deficit) in the schemes	171	(206)
Additional liability recognised due to minimum funding	(463)	(131)
Total pension liability <sup>a</sup>	(292)	(337)
Associated deferred tax asset	50	57

a. The total pension liability of £292m (2016 £337m) is represented by a £47m current liability (2016 £46m) and a £245m non-current liability (2016 £291m).

The movement in the fair value of the schemes' assets in the period is as follows:

	Scheme assets	
	2017 £m	2016 £m
Fair value of scheme assets at beginning of period	2,381	2,010
Interest income	53	71
Remeasurement gain:		
– Return on scheme assets (excluding amounts included in net finance charge)	3	355
Employer contributions	46	49
Benefits paid	(91)	(102)
Administration costs	(2)	(2)
At end of period	2,390	2,381

Changes in the present value of defined benefit obligations are as follows:

	Defined benefit obligation	
	2017 £m	2016 £m
Present value of defined benefit obligation at beginning of period	(2,587)	(2,112)
Interest cost	(57)	(74)
Benefits paid	91	102
Remeasurement losses:		
– Effect of changes in demographic assumptions	139	–
– Effect of changes in financial assumptions	164	(577)
– Effect of experience adjustments	31	74
At end of period <sup>a</sup>	(2,219)	(2,587)

a. The defined benefit obligation comprises £34m (2016 £39m) relating to the MABETUS unfunded plan and £2,185m (2016 £2,548m) relating to the funded plans.

The weighted average duration of the defined benefit obligation is 20 years (2016 21 years).

The major categories and fair values of scheme assets of the MABPP and MABEPP schemes at the end of the reporting period are as follows:

	2017 £m	2016 £m
Cash and equivalents	18	15
Equity instruments	730	633
Debt instruments:		
– Bonds	1,512	1,600
– Real estate debt	90	96
– Infrastructure debt	73	50
– Absolute return bond funds	200	198
– Gilt repurchase transactions	(245)	(202)
Gold	4	5
Forward foreign exchange contracts	8	(14)
Fair value of assets	2,390	2,381

The actual investment return achieved on the scheme assets over the period was 2.2% (2016 22.0%), which represented a gain of £56m (2016 £427m).

Virtually all equity instruments, bonds and gold have quoted prices in active markets and are classified as Level 1 instruments. Absolute return bond funds, gilt repurchase transactions and forward foreign exchange contracts are classified as Level 2 instruments. Real estate debt and infrastructure debt are classified as level 3 instruments.

In the 53 weeks ended 30 September 2017 the Group paid £7m (2016 £6m) in respect of the defined contribution arrangements, with an additional £1m (2016 £1m) outstanding as at the period end.

At 30 September 2017 the MABPP owed £2m (2016 £1m) to the Group in respect of expenses paid on its behalf. This amount is included in other receivables in note 3.2.

#### 4.6 Share-based payments

##### Accounting policy

The Group operates a number of equity-settled share-based compensation plans, whereby, subject to meeting any relevant conditions, employees are awarded shares or rights over shares. The cost of such awards is measured at fair value, excluding the effect of non market-based vesting conditions, on the date of grant. The expense is recognised on a straight-line basis over the vesting period and is adjusted for the estimated effect of non market-based vesting conditions and forfeitures, on the number of shares that will eventually vest due to employees leaving the employment of the Group. Fair values are calculated using either the Black-Scholes, Binomial or Monte Carlo simulation models depending on the conditions attached to the particular share scheme.

SAYE share options granted to employees are treated as cancelled when employees cease to contribute to the scheme. This results in an accelerated recognition of the expense that would have arisen over the remainder of the original vesting period.

##### Schemes in operation

The net charge recognised for share-based payments in the period was £2m (2016 £2m).

The Group had four equity-settled share schemes (2016 four) in operation during the period; the Performance Restricted Share Plan (PRSP); Sharesave Plan; Share Incentive Plan (SIP) and Short Term Deferred Incentive Plan (STDIP). There were no outstanding awards for the STDIP plan at the start of the period and no grants in the current period, therefore no disclosures are presented below for this scheme.

The vesting of all awards or options is generally dependent upon participants remaining in the employment of a participating company during the vesting period. Further details on each scheme are provided in the Report on Directors' remuneration on pages 66 to 87.

The following tables set out weighted average information about how the fair value of each option grant was calculated:

	2017		2016	
	Performance Restricted Share Plan	Sharesave Plan	Performance Restricted Share Plan	Sharesave Plan
Valuation model	Monte Carlo and Binomial	Black-Scholes	Monte Carlo and Binomial	Black-Scholes
Weighted average share price	246.1p	231.0p	239.5p	282.7p
Exercise price <sup>a</sup>	–	221.0p	–	264.0p
Expected dividend yield <sup>b</sup>	–	2.94%	–	2.32%
Risk-free interest rate	0.34%	0.31%	0.11%	0.69%
Volatility <sup>c</sup>	32.0%	29.43%	32.8%	28.3%
Expected life (years) <sup>d</sup>	3.5	4.10	2.92	3.99
Weighted average fair value of grants during the period	182.4	42.8	159.3	57.8

a. The exercise price for the Performance Restricted Share Plan is £1 per participating employee.

b. The expected dividend yield for the Sharesave Plan has used historical dividend information. For details on the Group's current dividend policy refer to the Financial review on page 43. The expected dividend yield for the Performance Restricted Share Plan options is zero as participants are entitled to Dividend Accrued Shares to the value of ordinary dividends paid or payable during the vesting period.

c. The expected volatility is determined by calculating the historical volatility of the Company's share price commensurate with the expected term of the options and share awards.

d. The expected life of the options represents the average length of time between grant date and exercise date.

The fair value of awards under the Short Term Deferred Incentive Plan and the Share Incentive Plan are equal to the share price on the date of award as there is no price to be paid and employees are entitled to Dividend Accrued Shares to the value of ordinary dividends paid or payable during the vesting period. The assumptions set out above are therefore not relevant to these schemes. The fair value of options granted under the Share Incentive Plan during the period was 231.0p (2016 282.7p).

## Notes to the financial statements

### Section 4 – Capital structure and financing costs continued

#### 4.6 Share-based payments continued

The tables below summarise the movements in outstanding options during the period.

	Number of shares		Weighted average exercise price	
	2017 m	2016 m	2017 p	2016 p
<b>Sharesave plan</b>				
Outstanding at the beginning of the period	3.6	3.9	297.0	299.2
Granted	1.8	1.6	221.0	264.0
Exercised	(0.1)	(0.8)	249.0	191.7
Forfeited	(0.8)	(1.0)	296.8	337.7
Expired	(0.4)	(0.1)	302.6	279.7
Outstanding at the end of the period	4.1	3.6	264.1	297.0
Exercisable at the end of the period	0.5	–	291.1	–

The outstanding options for the SAYE scheme had an exercise price of between 182.0p and 362.0p (2016 between 182.0p and 362.0p) and the weighted average remaining contract life was 3.0 years (2016 2.9 years). The number of forfeited shares in the period includes 615,998 (2016 811,828) cancellations.

SAYE options were exercised on a range of dates. The average share price through the period was 251.1 (2016 286.9p).

	Number of shares	
	2017 m	2016 m
<b>Share Incentive Plan</b>		
Outstanding at the beginning of the period	1.5	1.5
Granted	0.5	0.3
Exercised	(0.2)	(0.2)
Forfeited	(0.1)	(0.1)
Outstanding at the end of the period	1.7	1.5
Exercisable at the end of the period	0.8	0.8

Options under the Share Incentive Plan are capable of remaining within the SIP trust indefinitely while participants continue to be employed.

	Number of shares	
	2017 m	2016 m
<b>Performance Restricted Share Plan</b>		
Outstanding at the beginning of the period	4.1	3.5
Granted	2.1	2.0
Exercised	–	(0.2)
Forfeited	(0.1)	(0.1)
Expired	(0.9)	(1.1)
Outstanding at the end of the period	5.2	4.1
Exercisable at the end of the period	–	–

The exercise price for the Performance Restricted Share Plan is £1 per participating employee, therefore the weighted average exercise price for these options is £nil (2016 £nil).

Options outstanding at 30 September 2017 had an exercise price of £nil and a weighted average remaining contractual life of 3.3 years (2016 3.4 years).

## 4.7 Equity

### Accounting policies

#### Own shares

The cost of own shares held in employee share trusts and in treasury are deducted from shareholders' equity until the shares are cancelled, reissued or disposed. Where such shares are subsequently sold or reissued, the fair value of any consideration received is also included in shareholders' equity.

#### Dividends

Dividends proposed by the Board but unpaid at the period end are not recognised in the financial statements until they have been approved by shareholders at the Annual General Meeting. Interim dividends are recognised when paid.

Scrip dividends are fully paid up from the share premium account. They are accounted for as an increase in share capital for the nominal value of the shares issued, and a resulting reduction in share premium.

### Called up share capital

	2017		2016	
	Number of shares	£m	Number of shares	£m
<b>Allotted, called up and fully paid</b>				
Ordinary shares of 8 <sup>13</sup> / <sub>24</sub> p each				
At start of period	413,624,294	35	412,520,626	35
Share capital issued <sup>a</sup>	8,924,310	1	1,103,668	–
<b>At end of period</b>	<b>422,548,604</b>	<b>36</b>	413,624,294	35

a. Under the terms of the Company's scrip dividend scheme, shareholders were able to elect to receive ordinary shares in place of the final dividend of 5.0p per ordinary share in relation to the 52 weeks ended 24 September 2016 and the interim dividend of 2.5p in relation to the current period. This resulted in the issue of 7,252,656 and 1,253,640 new fully paid ordinary shares respectively (2016 nil and nil). In addition the Company issued 418,014 (2016 1,103,668) shares during the year under the savings related share option schemes for a consideration of £nil (2016 £nil).

All of the ordinary shares rank equally with respect to voting rights and rights to receive ordinary and special dividends. There are no restrictions on the rights to transfer shares.

Details of options granted under the Group's share schemes, are contained in note 4.6.

### Dividends

	2017			2016		
	Total dividend £m	Settled via scrip £m	Pence per ordinary share	Total dividend £m	Settled via scrip £m	Pence per ordinary share
<b>Declared and paid in the period</b>						
Interim dividend – 53 weeks ended 30 September 2017	11	3	2.5	–	–	–
Final dividend – 52 weeks ended 24 September 2016	21	17	5.0	–	–	–
Interim dividend – 52 weeks ended 24 September 2016	–	–	–	10	–	2.5
Final dividend – 52 weeks ended 26 September 2015	–	–	–	21	–	5.0
	<b>32</b>	<b>20</b>		31	–	

The final dividend of 5.0p per ordinary share declared in relation to the 52 weeks ended 24 September 2016 (2015 5.0p) was approved at the Annual General Meeting on 28 January 2017 and was paid to shareholders on 7 February 2017. Shareholders were able to elect to receive ordinary shares credited as fully paid instead of the cash dividend under the terms of the Company's scrip dividend scheme. Of the £21m final dividend, £17m was in the form of the issue of ordinary shares to shareholders opting in to the scrip alternative. The market value per share at the date of payment was 227.3p per share, resulting in the issue of 7 million new shares, fully paid up from the share premium account. An interim dividend of 2.5p per ordinary share (2016 2.5p) was declared in the period and paid on 3 July 2017. Of the £11m interim dividend, £3m was in the form of the issue of ordinary shares to shareholders opting in to the scrip alternative. The market value per share at the date of payment was 243.2p per share, resulting in the issue of 1 million new shares, fully paid up from the share premium account. The nominal value of the 8 million shares issued in relation to the final and interim scrip dividends is £1m.

The Directors propose a final dividend of 5.0p per share for approval at the Annual General Meeting, which equates to £21m based on the number of ordinary shares in issue at 30 September 2017. The dividend will be paid on 6 February 2018 to shareholders on the register at close of business on 15 December 2017.

## Notes to the financial statements

### Section 4 – Capital structure and financing costs continued

#### 4.7 Equity continued

##### Share premium account

The share premium account represents amounts received in excess of the nominal value of shares on issue of new shares. Share premium of £nil has been recognised on shares issued in the period (2016 £1m).

##### Capital redemption reserve

The capital redemption reserve movement arose on the repurchase and cancellation by the Company of ordinary shares during prior periods.

##### Revaluation reserve

The revaluation reserve represents the unrealised gain generated on revaluation of the property estate with effect from 29 September 2007. It comprises the excess of the fair value of the estate over deemed cost, net of related deferred taxation.

##### Own shares held

Own shares held by the Group represent the shares in the Company held by the employee share trusts.

During the period, the employee share trusts acquired no shares (2016 270,000) and subscribed for 353,025 (2016 268,287) shares at a cost of £nil (2016 £1m) and released 188,586 (2016 477,286) shares to employees on the exercise of options and other share awards for a total consideration of £nil (2016 £nil). The 1,748,942 shares held by the trusts at 30 September 2017 had a market value of £5m (24 September 2016 1,584,503 shares held had a market value of £4m).

The Company has established two employee share trusts:

##### Share Incentive Plan (SIP) Trust

The SIP Trust was established in 2003 to purchase shares on behalf of employees participating in the Company's Share Incentive Plan. Under this scheme, eligible employees are awarded free shares which are normally held in trust for a holding period of at least three years. After five years the shares may be transferred to or sold by the employee free of income tax and National Insurance contributions. The SIP Trust buys the shares in the market or subscribes for newly issued shares with funds provided by the Company. During the holding period, dividends are paid directly to the participating employees. At 30 September 2017, the trustees, Equiniti Share Plan Trustees Limited, held 1,698,880 (2016 1,530,395) shares in the Company. Of these shares, 553,839 (2016 474,453) shares are unconditionally available to employees, 272,341 (2016 345,674) shares have been conditionally awarded to employees, 842,954 (2016 689,702) shares have been awarded to employees but are still required to be held within the SIP Trust and the remaining 29,746 (2016 20,566) shares are unallocated.

##### Employee Benefit Trust (EBT)

The EBT was established in 2003 in order to satisfy the exercise or vesting of existing and future share options and awards under the Executive Share Option Plan, Performance Restricted Share Plan, Short Term Deferred Incentive Plan and the Sharesave Plan. The EBT purchases shares in the market or subscribes for newly issued shares, using funds provided by the Company, based on expectations of future requirements. Dividends are waived by the EBT. At 30 September 2017, the trustees, Sanne Fiduciary Services Limited, were holding 50,062 (2016 54,108) shares in the Company.

##### 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.

##### Translation reserve

The translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

##### Retained earnings

The Group's main operating subsidiary, Mitchells & Butlers Retail Limited, had retained earnings under FRS 101 of £2,157m at 30 September 2017 (2016 £2,091m). Its ability to distribute these reserves by way of dividends is restricted by the securitisation covenants (see note 4.2).

## Notes to the financial statements

### Section 5 – Other notes

#### 5.1 Related party transactions

##### Key management personnel

Employees of the Mitchells & Butlers Group who are members of the Board of Directors or the Executive Committee of Mitchells & Butlers plc are deemed to be key management personnel. It is the Board who have responsibility for planning, directing and controlling the activities of the Group.

Compensation of key management personnel of the Group:

	2017 53 weeks £m	2016 52 weeks £m
Short-term employee benefits	2	3

Movements in share options held by the employees of Mitchells & Butlers plc are summarised in the Report on Directors' remuneration on pages 66 to 87.

#### 5.2 Subsidiaries

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation.

Mitchells & Butlers plc is the beneficial owner of all of the equity share capital, either itself or through subsidiary undertakings, of the following companies:

Name of subsidiary	Country of incorporation	Country of operation	Nature of business
<b>Principal operating subsidiaries</b>			
Mitchells & Butlers Retail Limited	England and Wales	United Kingdom	Leisure retailing
Mitchells & Butlers Retail (No. 2) Limited	England and Wales	United Kingdom	Leisure retailing
Ha Ha Bar & Grill Limited	England and Wales	United Kingdom	Leisure retailing
Orchid Pubs & Dining Limited	England and Wales	United Kingdom	Leisure retailing
ALEX Gaststätten Gesellschaft mbH & Co KG	Germany	Germany	Leisure retailing
Midco 1 Limited	England and Wales	United Kingdom	Property leasing company
Mitchells & Butlers (Property) Limited	England and Wales	United Kingdom	Property management
Mitchells & Butlers Leisure Retail Limited	England and Wales	United Kingdom	Service company
Mitchells & Butlers Germany GmbH <sup>a</sup>	Germany	Germany	Service company
Mitchells & Butlers Finance plc	England and Wales	United Kingdom	Finance company
Standard Commercial Property Developments Limited	England and Wales	United Kingdom	Property development
<b>Other subsidiaries</b>			
Mitchells & Butlers Holdings (No.2) Limited <sup>a</sup>	England and Wales	United Kingdom	Holding company
Mitchells & Butlers Holdings Limited	England and Wales	United Kingdom	Holding company
Mitchells & Butlers Leisure Holdings Limited	England and Wales	United Kingdom	Holding company
Mitchells & Butlers Retail Holdings Limited	England and Wales	United Kingdom	Holding company
Old Kentucky Restaurants Limited	England and Wales	United Kingdom	Trademark ownership
Bede Retail Investments Limited	England and Wales	United Kingdom	Non-trading
Lastbrew Limited	England and Wales	United Kingdom	Non-trading
Mitchells & Butlers (IP) Limited	England and Wales	United Kingdom	Non-trading
Mitchells & Butlers Acquisition Company	England and Wales	United Kingdom	Non-trading
Mitchells & Butlers Retail Property Limited <sup>a</sup>	England and Wales	United Kingdom	Non-trading
Mitchells and Butlers Healthcare Trustee Limited	England and Wales	United Kingdom	Healthcare trustee
Standard Commercial Property Investments Limited	England and Wales	United Kingdom	Non-trading
Standard Commercial Property Securities Limited	England and Wales	United Kingdom	Property development
Temple Circus Developments Limited	England and Wales	United Kingdom	Property development
ALEX Gaststätten Immobiliengesellschaft mbH	Germany	Germany	Property management
ALL BAR ONE Gaststätten Betriebsgesellschaft mbH	Germany	Germany	Leisure retailing
ALEX Alsterpavillon Immobilien GmbH & Co KG	Germany	Germany	Property management
ALEX Alsterpavillon Management GmbH	Germany	Germany	Management company
ALEX Gaststätten Management GmbH	Germany	Germany	Management company
PLAN-BAR Gastronomie Einrichtungen GmbH	Germany	Germany	Non-trading
Browns Restaurant (Brighton) Limited	England and Wales	United Kingdom	Dormant

## Notes to the financial statements

### Section 5 – Other notes continued

#### 5.2 Subsidiaries continued

Name of subsidiary	Country of incorporation	Country of operation	Nature of business
Browns Restaurant (Bristol) Limited	England and Wales	United Kingdom	Dormant
Browns Restaurant (Cambridge) Limited	England and Wales	United Kingdom	Dormant
Browns Restaurant (London) Limited	England and Wales	United Kingdom	Dormant
Browns Restaurant (Oxford) Limited	England and Wales	United Kingdom	Dormant
Browns Restaurants Limited	England and Wales	United Kingdom	Dormant
Crownhill Estates (Derriford) Limited	England and Wales	United Kingdom	Dormant
East London Pubs & Restaurants Limited	England and Wales	United Kingdom	Dormant
Mitchells & Butlers Lease Company Limited	England and Wales	United Kingdom	Dormant
Intertain (Dining) Limited	England and Wales	United Kingdom	Dormant

a. Shares held directly by Mitchells & Butlers plc.

The registered office for companies operating in the United Kingdom is 27 Fleet Street, Birmingham, B3 1JP.

The registered office for companies operating in Germany is Adolfstrasse 16, 65185 Wiesbaden.

#### 5.3 Five year review

	2017 53 weeks £m	2016 52 weeks £m	2015 52 weeks £m	2014 52 weeks £m	2013 52 weeks £m
<b>Revenue</b>	<b>2,180</b>	2,086	2,101	1,970	1,895
<b>Operating profit before adjusted items</b>	<b>314</b>	318	328	313	310
Adjusted items	(106)	(87)	(58)	(49)	(29)
<b>Operating profit</b>	<b>208</b>	231	270	264	281
Finance costs	(125)	(126)	(130)	(132)	(130)
Finance revenue	1	1	1	1	2
Net pensions finance charge	(7)	(12)	(15)	(10)	(11)
<b>Profit before taxation</b>	<b>77</b>	94	126	123	142
Tax expense	(14)	(5)	(23)	(30)	(14)
<b>Profit for the period</b>	<b>63</b>	89	103	93	128
<b>Earnings per share</b>					
Basic	<b>15.1p</b>	21.6p	25.0p	22.6p	31.2p
Diluted	<b>15.0p</b>	21.6p	24.9p	22.5p	31.0p
Adjusted (Basic) <sup>a</sup>	<b>34.9p</b>	34.9p	35.7p	32.6p	32.2p

a. Adjusted earnings per share is stated after removing the impact of adjusted items as explained in note 2.2.

**Company balance sheet**

30 September 2017

	Notes	2017 £m	2016 (restated*) £m
<b>Non-current assets</b>			
Investments in subsidiaries	5	1,474	1,225
Deferred tax asset	9	56	66
		<b>1,530</b>	1,291
<b>Current assets</b>			
Trade and other receivables	6	828	1,034
Cash and cash equivalents		1	–
		<b>829</b>	1,034
<b>Current liabilities</b>			
Pension liabilities	4	(47)	(46)
Borrowings	8	–	(6)
Trade and other payables	7	(447)	(480)
		<b>(494)</b>	(532)
<b>Non-current liabilities</b>			
Pension liabilities	4	(245)	(291)
<b>Net assets</b>			
		<b>1,620</b>	1,502
<b>Equity</b>			
Called up share capital	10	36	35
Share premium account		26	27
Capital redemption reserve		3	3
Own shares held		(1)	(1)
Retained earnings		1,556	1,438
<b>Total equity</b>			
		<b>1,620</b>	1,502

\* Investment in subsidiaries and retained earnings have been restated to reflect an impairment of £495m of the Company's investment in Mitchells & Butlers Holdings (No.2) Limited. See note 1.

Pension liabilities have also been reclassified to reflect current and non-current liabilities.

The Company reported profit for the 53 weeks ended 30 September 2017 of £121m (52 weeks ended 24 September 2016 £918m).

Signed on behalf of the Board on 22 November 2017

**Tim Jones**  
Finance Director

The accounting policies and the notes on pages 137 to 139 form an integral part of these financial statements.

Registered Number: 04551498

Mitchells & Butlers plc Company financial statements  
**Company statement of changes in equity**  
For the 53 weeks ended 30 September 2017

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares held £m	Retained earnings £m	Total equity £m
At 26 September 2015	35	26	3	(1)	581	644
Profit after taxation (restated*)	–	–	–	–	918	918
Remeasurement of pension liability	–	–	–	–	(22)	(22)
Deferred tax on remeasurement of pension liability	–	–	–	–	(9)	(9)
Total comprehensive income (restated*)	–	–	–	–	887	887
Share capital issued	–	1	–	–	–	1
Purchase of own shares	–	–	–	(1)	–	(1)
Release of own shares	–	–	–	1	(1)	–
Credit in respect of employee share schemes	–	–	–	–	2	2
Dividends paid	–	–	–	–	(31)	(31)
At 24 September 2016 (restated*)	35	27	3	(1)	1,438	1,502
Profit after taxation	–	–	–	–	121	121
Remeasurement of pension liability	–	–	–	–	8	8
Deferred tax on remeasurement of pension liability	–	–	–	–	(1)	(1)
Total comprehensive income	–	–	–	–	128	128
Share capital issued	–	–	–	–	–	–
Purchase of own shares	–	–	–	–	–	–
Release of own shares	–	–	–	–	–	–
Credit in respect of employee share schemes	–	–	–	–	2	2
Dividends paid	–	–	–	–	(12)	(12)
Scrip dividend related share issue	1	(1)	–	–	–	–
<b>At 30 September 2017</b>	<b>36</b>	<b>26</b>	<b>3</b>	<b>(1)</b>	<b>1,556</b>	<b>1,620</b>

\* Profit after taxation for the 52 weeks ended 24 September 2016 has been restated from £1,413m to £918m, reflecting an impairment of £495m of the Company's investment in Mitchells & Butlers Holdings (No.2) Limited. See note 1.

The retained earnings account is wholly distributable after the deduction for own shares.

## 1. Basis of preparation

### Basis of accounting

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' as issued by the FRC.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements.

The financial statements have been prepared under the historical cost convention. The Company's accounting policies have been applied on a consistent basis to those set out in the relevant notes to the consolidated financial statements. There have been no changes to policies during the period. The critical judgements and estimates of the Company are considered alongside those of the Group. The key critical judgements of the Company are related to the selection of the discount rate for the defined benefit pension liability described in note 4.5 of the consolidated financial statements and the selection of discount rate in the investment impairment review in note 5. The key critical estimate for the Company is the estimate of future cash flows in the investment impairment review described in note 5.

### Foreign currencies

Transactions in foreign currencies are recorded at the exchange rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the relevant rates of exchange ruling at the balance sheet date.

In accordance with IAS 39, the Company has applied fair value accounting in order to hedge part of its euro loan with Mitchells & Butlers Germany GmbH against part of its investment in Mitchells & Butlers Germany GmbH. On 20 September 2017, Mitchells & Butlers Germany has paid a dividend to the Company which has settled the euro loan. Up to the settlement date, foreign exchange differences arising on translation on both the investment and euro loan were taken to the profit and loss account. At 20 September 2017, the hedge has been de-designated and the part of the investment that had been used to hedge the loan was translated at the exchange rate on that date. No further hedge accounting will be required.

### Restatement

Following publication of the Mitchells & Butlers plc Annual report and accounts 2016, the Financial Reporting Council (FRC) wrote to the Company to determine whether an appropriate impairment review had been performed over the Company's investments and intercompany receivables balances, following the restructuring activity during the period. As a result of this request, the Company has performed a more detailed impairment review in respect of the prior period and has determined that there was an error in the previous calculation. This has resulted in the requirement for the Company to impair its investment in Mitchells & Butlers Holdings (No.2) Limited by £495m. The 2016 profit and loss account, balance sheet and statement of changes in equity have been restated to reflect this. Details of the restatement are shown in note 5. This adjustment does not affect the consolidated financial statements.

## 2. Profit and loss account

### Profit and loss account

The Company has not presented its own profit and loss account, as permitted by Section 408 of the Companies Act 2006.

The Company recorded a profit after tax of £121m (2016 £918m (restated as described in note 1)), less dividends of £12m (2016 £31m).

### Audit remuneration

Auditors' remuneration for audit services to the Company was £22,000 (2016 £22,000). This is borne by another Group company, as are any other costs relating to non-audit services (see note 2.3 to the consolidated financial statements).

## 3. Employees and Directors

	2017 53 weeks	2016 52 weeks
Average number of employees, including part-time employees	2	2

Employees of Mitchells & Butlers plc consist of Executive Directors who are considered to be the key management personnel of the Company.

Details of employee benefits and post-employment benefits, including share-based payments are included within the Directors' Remuneration Report on pages 66 to 87. The charge recognised for share-based payments in the period is £nil (2016 £nil).

## 4. Pensions

### Accounting policy

The accounting policy for pensions is disclosed in the consolidated financial statements in note 4.5.

### Pension liability

At 30 September 2017 the Company's pension liability was £292m (2016 £337m). Of this amount, £47m (2016 £46m) is a current liability and £245m (2016 £291m) is a non-current liability.

The Company is the sponsoring employer of the Group's pension plans. Information concerning the pension scheme arrangements operated by the Company and associated current and future contributions is contained within note 4.5 to the consolidated financial statements on pages 126 to 129.

The pension amounts and disclosures included in note 4.5 to the consolidated financial statements are equivalent to those applicable for the Company.

## 5. Investments in subsidiaries

### Accounting policy

The Company's investments in Group undertakings are held at cost less provision for impairment, except for those amounts designated as being in a fair value hedge.

	Shares in subsidiary undertakings £m
<b>Cost</b>	
At 26 September 2015	1,746
Exchange differences	4
Additions <sup>a</sup>	1,354
At 24 September 2016	3,104
Exchange differences	1
Additions <sup>b</sup>	248
<b>At 30 September 2017</b>	<b>3,353</b>
<b>Provision</b>	
At 26 September 2015	30
Impairment of investment in Mitchells & Butlers Holdings (No.2) Limited (restated*)	495
Impairment of investment in Mitchells & Butlers Retail Property Limited <sup>a</sup>	1,354
At 24 September 2016 (restated*)	1,879
Impairment	–
<b>At 30 September 2017</b>	<b>1,879</b>
<b>Net book value</b>	
<b>At 30 September 2017</b>	<b>1,474</b>
At 24 September 2016 (restated*)	1,225
At 26 September 2015	1,716

\* Restated to reflect an impairment of £495m in the Company's investment in Mitchells & Butlers Holdings (No.2) Limited. See note 1.

- a. During the prior period, the Company acquired all of the share capital of Mitchells & Butlers Retail Property Limited by way of a dividend in specie of £1,354m from Mitchells & Butlers Holdings (No.2) Limited. Subsequently, Mitchells & Butlers Retail Property Limited made a distribution of £501m to transfer an intercompany loan receivable from Mitchells & Butlers Holdings (No.2) Limited to the Company. A further dividend of £853m was also received by the Company from Mitchells & Butlers Retail Property Limited. Following these distributions, the net assets of Mitchells & Butlers Retail Property Limited were reduced by £1,354m and the Company's investment in Mitchells & Butlers Retail Property Limited was fully impaired.
- b. Additions in the period of £248m relate to a capital contribution, in the form of a loan waiver, provided to a subsidiary company within the Mitchells & Butlers plc Group. The intercompany loan was tested for impairment prior to the loan waiver, with no impairment required.

Mitchells & Butlers plc is the beneficial owner of all of the equity share capital of companies within the Group, either itself or through subsidiary undertakings (see note 5.2 of the consolidated financial statements).

Investments have been tested for impairment using forecast cash flows, discounted by applying a pre-tax discount rate of 7.5% (2016 8.3%). For the purposes of the calculation of the recoverable amount, the cash flow projections include 0.0% (2016 1.0%) of growth per annum.

### Sensitivity analysis

Changes in forecast cash flows or discount rate could materially impact the recoverability of the investments. It is estimated that: a 1% increase in the discount rate would generate an impairment of £286m; a 10% reduction in future cash flows would generate an impairment of £115m; or a 1% reduction in growth rate would generate an impairment of £326m.

## 6. Trade and other receivables

	2017 £m	2016 £m
Amounts owed by subsidiary undertakings	<b>828</b>	1,034

All amounts fall due within one year. The reduction in amounts owed by subsidiary undertakings is mainly as a result of the loan waiver provided to a subsidiary company during the period (see note 5).

## 7. Trade and other payables

	2017 £m	2016 £m
Bank overdraft	28	28
Amounts owed to subsidiary undertakings <sup>a</sup>	416	450
Other creditors	3	2
	<b>447</b>	480

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

## 8. Borrowings

### Accounting policy

The accounting policy for borrowings is disclosed in the consolidated financial statements in note 4.2.

Borrowings can be analysed as follows:

	2017 £m	2016 £m
<b>Current</b>		
Unsecured revolving credit facility	–	6
Total borrowings	–	6

### Unsecured revolving credit facility

The Company holds uncommitted credit facilities of £15m. The amount drawn at 30 September 2017 is £nil (2016 £6m).

## 9. Taxation

### Accounting policy

The accounting policy for taxation is disclosed in the consolidated financial statements in note 2.4.

### Deferred tax asset

Movements in the deferred tax asset can be analysed as follows:

	£m
At 26 September 2015	70
Charged to income statement – pensions	(4)
Credited to income statement – tax losses	9
Charged to other comprehensive income – pensions	(9)
At 24 September 2016	66
Charged to income statement – pensions	(6)
Charged to income statement – tax losses	(3)
Charged to other comprehensive income – pensions	(1)
<b>At 30 September 2017</b>	<b>56</b>

Analysed as tax timing differences related to:

	2017 £m	2016 £m
Pensions	50	57
Tax losses <sup>a</sup>	6	9
	<b>56</b>	66

a. Tax losses arising in 2008 which are now recoverable by offset against other income.

Further information on the changes to tax legislation are provided in note 2.4 to the consolidated financial statements.

## 10. Equity

### Called up share capital

Details of the amount and nominal value of allotted, called up and fully paid share capital are contained in note 4.7 to the consolidated financial statements.

### Dividends

Details of the dividends declared and paid by the Company are contained in note 4.7 to the consolidated financial statements.