Registration number: 24542

Mitchells & Butlers Retail Limited

Annual Report and Financial Statements

for the 53 weeks ended 30 September 2017

Mitchells & Butlers Retail Limited
Strategic Report for the 53 weeks ended 30 September 2017

Mitchells & Butlers Retail Limited ("the Company") is a private company limited by shares and is a subsidiary company of Mitchells & Butlers plc. Mitchells & Butlers plc, along with its subsidiaries, form the Mitchells and Butlers group of companies ("the Group").

The Directors present their Strategic Report for the 53 weeks ended 30 September 2017. The comparative period is for the 52 weeks ended 24 September 2016.

Business Model

Fair review of the business
The Company is a UK operator of pubs and restaurants with an estate of 1,295 managed outlets and 51 leased outlets at 30 September 2017 (2016 1,356 managed outlets and 48 leased outlets).

Over the last year we have continued to focus on our priorities: to build a more balanced business; to instil a more commercial culture; and to grow through technology and innovation.

Our initiatives in these areas have been successful in restoring sales growth and mitigating the inflationary cost headwinds which we faced in the past year. With inflationary costs continuing into the next financial year unabated our focus on efficiency remains at the forefront. To this end, we are embarking on the second phase of initiatives and mitigating activity during the first half of the new financial year.

We achieved like-for-like sales growth in the financial year having continued to build steadily on the sales improvement which began in the second half of last year. The improvement is partly driven by an increased level of capital investment in our sites but also reflected in an improvement in the performance of our sites which have not seen recent investment.

Margins have been adversely affected during the year by the cost headwinds which are impacting the whole industry. We continue to work diligently to mitigate as much of these cost pressures as possible through the work of both our support and outlet teams.

Market supply
The trends within the broader eating out market are mixed, with the restaurant sector overall seeing sales decline but with branded restaurants experiencing growth of 4.5% in 2017. Recent data suggests that consumer behaviour is changing, with people eating out less frequently but spending more when they do make the decisions to go out. In addition, although restaurant supply growth has steadied over the last year the market remains highly competitive and, as a result, levels of discounting appear to be increasing in some segments of the market.

It is well understood that there are unprecedented cost headwinds facing the sector, putting the focus on efficiency and maximising profitable sales growth. In addition, there is also political uncertainty both domestically and surrounding the impact of the UK leaving the European Union. Input costs will continue to be impacted by changes in the value of sterling. While the fall in the value of the currency since the EU referendum has been profit dilutive we do have a strong track record of partially mitigating input costs inflation through procurement initiatives.

Building a more balanced business
Over the coming years we are setting out to improve the quality of the estate: by exposing it to more premium market spaces and by improving the overall level of amenity. More premium market spaces are those in which we would expect to see the strongest growth, and they offer a form of long-term mitigation towards cost inflation. This approach is leading us to convert several of our businesses towards more premium concepts as well as selective site disposals where appropriate. To this end, we have carried out a full estate review which gives us a plan for each of our sites.

One outcome of this review was the disposal of 55 sites, which completed in July 2017. A second was the identification of a section of the estate which we believe may not be positioned to generate value. These are predominantly short leasehold sites in retail and leisure locations, currently trading below expectations. Having reviewed in detail the future trading potential and brand or offer conversion options for these sites this year we have concluded that several are unlikely to generate a positive return over the remaining life of their lease. We have reflected this judgement in an increased onerous lease provision taken this year.

During the year we have also focused investment on our accommodation offer. We operate across 47 locations and believe we can generate a strong return by upgrading the rooms to be more closely aligned with the feel of the brand they are attached to, which in most cases means premiumisation of the accommodation. We have completed 8 remodels in FY 2017.

Business Model (continued)

Building a more balanced business (continued)
The amenity level of our estate is improved through our remodel programme, which encompasses all our brands and allows us to develop the guest proposition whilst maintaining and enhancing the estate through capital investment. In total we have completed 220 remodels and conversions in FY 2017 which means we are on track to maintain the reduction in our redevelopment cycle from 11-12 years previously to 6-7 years now.

Instilling a more commercial culture
We have focused our work in this area across a wide range of activities. The four new operating divisions, each containing similar customer types and brands, introduced last year have improved our guest focus and we have made significant progress in the workstreams set up to align to our priorities as evidenced by our like-for-like sales improvement.

The growth of social media has made online reputation more important than ever and we have made significant progress in this area over the course of the year using reputation.com, an online feedback consolidation tool to improve the level of management engagement with guests.

In these times of unprecedented cost headwinds, it is important that we rigorously identify and secure efficiency and cost saving opportunities across the business and we will continue to have a number of ongoing initiatives to achieve this. Examples from the last year include the improvement of two key operational systems. The first is a time and attendance labour system which requires team members to clock in and out, and the second system which we have updated during the year is our stock control system.

Grow through innovation and technology
Innovation and technology are critical areas for us as a business, in terms of efficiency, attracting and interacting with guests and remaining competitive in our markets. As a result, and as with our other priorities, there has been much activity in this space.

A key area of focus is to build on our existing technology, given the systems investment we have made in recent years.

Technology continues to evolve at a rapid pace and we have made good progress against our digital strategy which positions us well to benefit from these changes. Technology now impacts each aspect of the guest journey from learning about our offers to their experience in site with us and our ability to encourage them to come back. One significant area of progress during the year has been the development of our mobile order at table facility, allowing guests to order food and drinks from their own devices. This technology is currently in trial with a view to roll out to more brands.

The demand for food delivery within the industry has remained in growth and we have been positioning ourselves in order to benefit from customers' changing habits which we believe provide an opportunity to capture incremental sales. Over the course of the year we have increased the number of sites offering Deliveroo and we have also carried out a successful trial with JustEat allowing us to offer Harvester and Toby Carvery delivery as well as click and collect.

Key Performance Indicators
The performance of the Company is monitored as part of the wider Group, using similar key performance indicators. These are discussed in the Annual Report and Accounts 2017 of Mitchells & Butlers plc and include staff turnover, net promoter score, same outlet like-for-like sales growth and incremental return on expansionary capital.

Further explanation of the performance and reasons for the movements can be found in the Annual Report and Accounts 2017 of Mitchells & Butlers plc.

Principal risks and uncertainties

The Company's Directors consider the risks for the Company to be largely the same as the risks of the Group that are discussed in the Annual Report and Accounts 2017 of Mitchells & Butlers plc. Decisions on how to monitor and mitigate these risks are made for the Group as a whole. Risks relevant to the Company include, but are not restricted to the following:

Principal risks and uncertainties (continued)

- **Market risks**

Consumer and market insight
Social and demographic changes are driving the long-term growth in eating-out, whilst at the same time leading to a steady decline in the sales of on-trade drinks without food. There is a risk that the Group may not manage and develop its brands in line with consumer needs and market trends, due to failure to obtain or use sufficient insight in a timely manner.

To mitigate this risk, the Group reviews guest feedback submitted in online guest satisfaction surveys. This feedback together with the results of research studies is monitored and evaluated by a dedicated guest insight team to ensure that the Group's brands remain relevant to guests. In addition, the Group operates a consumer and market insight led process to innovate and develop new brands.

Pricing and market changes
External influences, such as changes in the general economic climate or competitor activity, could have a detrimental effect on consumers' spending patterns. In responding to these changes, there is a risk that the Group may not apply price changes intelligently, due to a lack of appreciation of market sensitivities and elasticities.

The Group performs regular monitoring and scrutiny of sales reporting in order to identify adverse trends sufficiently early to take remedial action. There is an increased focus on digital marketing activity and sales training has also been made available for all Retail Management employees. Each Brand also has its own pricing strategy and price promotions are regularly monitored.

- **Operational risks**

People planning and development
The Group has a strong guest focus, and as such it is important that it is able to attract, retain, develop and motivate the best people with the right capabilities. There is a risk that without the right people our customer service levels would be affected.

The Group makes significant investment in training to ensure that its people have the right skills to perform their jobs successfully. Furthermore, an employee survey is conducted annually to establish employee satisfaction and engagement and this is compared with other companies, as well as previous surveys. Where appropriate, changes in working practices are made in response to the findings of these surveys.

Remuneration packages are benchmarked to ensure that they remain competitive and a talent review process is used to provide structured succession planning.

Business continuity and crisis management
The Group relies on its food and drink supply chain and the key IT systems underlying the business to serve its guests efficiently and effectively. Supply chain interruption, IT system failure or crises such as terrorist activity or the threat of disease pandemic might restrict sales or reduce operational effectiveness.

The Group has in place crisis and continuity plans that are tested and refreshed regularly

Food Supply Chain Safety
Malicious or accidental contamination in the supply chain can lead to food goods being unfit for human consumption or potentially dangerous to consume. This leads to restrictions in supply which in turn causes an increase in cost of goods and reduced sales due to consumer fears and physical harm to customers or employees.

The Group uses a number of technical partners to help prevent contamination. All food products are risk rated using standard industry definitions and take account of the way products are used within our kitchens. Suppliers are also risk rated according to their products, with each food supplier being audited once per annum in respect of safety and additionally in response to a serious food safety complaint or incident.

Principal risks and uncertainties (continued)

Wage Cost Inflation
There is a risk that increased costs associated with the introduction of the National Living Wage may adversely impact upon overall operational costs.

A detailed review of the risks associated with successfully implementing the National Living Wage has been completed. This review has been undertaken at a strategic level and seeks to ensure that appropriate mitigating actions are in place, some of which are in relation to how the Group carefully manages productivity and efficiency across the estate. Implementation of the National Living Wage will continue to remain an area of focus as we enter FY 2018.

- **Finance risks**

Borrowing covenants

There are risks that borrowing covenants are breached because of circumstances such as:
i. A change in the economic climate leading to reduced cash inflows; or
ii. A material change in the valuation of the property portfolio.

The Group maintains headroom against these risks. The finance team conducts daily cash forecasting with periodic reviews at the Treasury Committee, the roles of which include ensuring that the Board Treasury Policy is adhered to, monitoring its operation and agreeing appropriate strategies for recommendation to the Board. In addition, regular forecasting and testing of covenant compliance is performed and frequent communication is maintained with the Securitisation Trustee.

- **Regulatory risks**

Failure to operate safely and legally
A major health and safety failure could lead to illness, injury or loss of life, and could cause significant damage to the Group's or a brand's reputation.

The Group maintains a robust programme of health and safety checks both within its restaurants and pubs and throughout the supply chain. A number of technical partners are used, including food technologists, food safety experts, a microbiologist, allergy consultants and trading standards specialists etc., to ensure that our food procedures are safe. Regular independent audits of trading sites are performed to ensure that procedures are followed and that appropriate standards are maintained. Food suppliers are required to meet the British Retail Consortium Global Standard for Food Safety and are subject to regular safety and quality audits. Comprehensive health and safety training programmes are in place.

Future Developments
The Company aims to deliver long-term sustainable value through organic growth. The strategy to achieve this goal has three core elements:

• Building a more balanced business to ensure exposure to the right market segments by having the correct trading brand or concept in each outlet, based on location, site characteristics and local demographics.

• Instil a more commercial culture by engaging our teams in delivering outstanding guest experiences and by acting quickly and decisively to remain competitive in our fast-changing marketplace.

• Grow through innovation and technology, ensuring that our brands and formats remain fresh and relevant within their market segments, and by leveraging the increasing role that technology can play in improving guest experience.

Approved by the Board on 22 November 2017 and signed on its behalf by:

A W Vaughan
Director

The Directors present their report on the affairs of the Company, together with the financial statements and independent auditor's report, for the 53 weeks ended 30 September 2017. The comparative period is for the 52 weeks ended 24 September 2016.

Results
Revenue for the period was £1,656m (2016 £1,607m) with profit for the period before taxation of £114m (2016 £127m). Taxation charged against the profit for the period was £4m (2016 £27m) leaving a profit after tax of £110m (2016 £100m).

Details of future developments can be found in the Strategic Report on page 4.

Dividends
Dividends paid during the period are disclosed in note 22.

Financial risk and treasury management
Details of the Company's policy on addressing risks and details about financial instruments are given in note 17. The financial risks faced by the Company are identified and managed by the Group Treasury department.

Securitisation
Since November 2003, the Company has operated within the Mitchells & Butlers securitisation structure. Under this securitisation structure, the Company has borrowed £1,867m (2016 £1,944m) after amortisation, from Mitchells & Butlers Finance plc under an Issuer/Borrower Facility Agreement dated 13 November 2003, amended and restated on 15 September 2006. The borrowings (Term Advances) are secured on the Company's assets and future income streams therefrom. Mitchells & Butlers Finance plc is a fellow subsidiary within the Group and the issuer of secured loan notes to third party investors for the same amount.

The securitisation is governed by various covenants, warranties and events of default, including requirements to maintain free cash flow and net worth ratios. In addition, the Company has to satisfy certain conditions before it can pay dividends.

In connection with the securitisation and under an Intra Group Supply Agreement dated 6 November 2003, Mitchells & Butlers Leisure Retail Limited (MAB Leisure Retail) has, since this date, procured the supply and distribution of the majority of goods, including food, beer, spirits and other drinks, for the Company. Under a Management Services Agreement dated 6 November 2003, MAB Leisure Retail has also, since this date, provided the Company with central management and administration services.

The Company pays a fee for the management and administration services provided by MAB Leisure Retail, a management and service company, which is a fellow subsidiary within the Group.

Going Concern
The financial statements have been prepared on a going concern basis. The Company's financing is based on securitised debt and, within this context, a robust review has been undertaken of projected performance against the securitisation covenants.

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

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

S K Martindale
L J Miles
A W Vaughan
G McMahon

Employment policies
Through its diversity policy, the Company aims to provide an environment which enables people with disabilities to perform better by reviewing any reasonable adjustments that could be made to the duties, hours worked or working environment in respect of a disabled employee or potential employee. Candidates can inform the Company about their disability through the use of an online recruitment system, so that reasonable adjustments can be made during any assessment events, allowing them to perform to the best of their ability.

Employment policies (continued)
Should any employee of the Company become disabled during their time with it, the Company actively makes reasonable adjustments in accordance with current legislation, including arranging appropriate training, to retain them.

Employee engagement
The Company engages with its employees in a number of ways including;

- a monthly magazine poster, Frontline News;
- MABLE, the M&B online learning system;
- line manager briefings; and
- communications road-shows held by brands across the Company.

We provide opportunities for employees to give their feedback to the Company in a number of ways, from team or shift meetings in restaurants and pubs, pulse surveys and an annual Business Forum.

Our employees participate in e-learning, covering food, health and fire safety, Challenge 21 and Intermediate Food Hygiene. We also provide a visual training library which houses short training videos to share best practice tips, health and safety, kitchen and cooking skills.

Employees can participate in the success of the business through employee share schemes.

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

This confirmation is given and should be interpreted in accordance with the provision of s418 of the Companies Act 2006.

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

Approved by the Board on 22 November 2017 and signed on its behalf by:

A W Vaughan
Director

Mitchells & Butlers Retail Limited

Directors' Responsibilities Statement

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

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

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

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

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

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 Company's affairs as at 30 September 2017 and of its profit for the 53 weeks then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Mitchells & Butlers Retail Limited (the 'Company') which comprise:

- the Income statement;
- the Statement of Comprehensive Income;
- the Balance sheet;
- the Statement of Changes in Equity; and
- the related notes 1 to 24.

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

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

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

Conclusions relating to going concern
We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

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

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

We have nothing to report in respect of these matters.

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

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

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

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

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

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, based on the work undertaken in the course of the audit:

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

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

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

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

We have nothing to report in respect of these matters.

Kate Hadley (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, UK
22 November 2017

Mitchells & Butlers Retail Limited
Income statement for the 53 weeks ended 30 September 2017

	Note	53 weeks ended 30 September 2017 £m	52 weeks ended 24 September 2016 £m
Revenue	2	1,656	1,607
Operating costs	3	(1,387)	(1,336)
Separately disclosed items	4	(33)	(20)
OPERATING PROFIT		236	251
Finance revenue	6	1	1
Finance costs	7	(123)	(125)
PROFIT BEFORE TAXATION		114	127
Tax expense	8	(4)	(27)
PROFIT FOR THE PERIOD		110	100

The above results are derived from continuing operations.

The notes on pages 14 to 34 form an integral part of these financial statements.

Mitchells & Butlers Retail Limited
Statement of Comprehensive Income
for the 53 weeks ended 30 September 2017

	Note	53 weeks ended 30 September 2017 £m	52 weeks ended 24 September 2016 £m
PROFIT FOR THE PERIOD		**110**	100
Items that will not be reclassified subsequently to profit and loss:			
Unrealised gain on revaluation of the property portfolio	10	**57**	194
Tax relating to items not reclassified	8	**(8)**	5
		49	199
Items that may be reclassified subsequently to profit and loss:			
Cash flow hedges:			
Gains/(losses) arising during the period	17	**67**	(150)
Reclassification adjustments for items included in profit or loss	17	**44**	43
Tax relating to items that may be reclassified	8	**(19)**	9
		92	(98)
OTHER COMPREHENSIVE INCOME AFTER TAX		**141**	101
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**251**	201

The notes on pages 14 to 34 form an integral part of these financial statements.

Mitchells & Butlers Retail Limited

(Registration number: 24542)

Balance sheet as at 30 September 2017

	Note	30 September 2017 £m	24 September 2016 £m
NON-CURRENT ASSETS			
Intangible assets	9	1	2
Property, plant and equipment	10	3,808	3,780
Investments in subsidiaries	12	21	21
Deferred tax asset	19	50	68
Lease premiums		1	1
TOTAL NON-CURRENT ASSETS		3,881	3,872
CURRENT ASSETS			
Inventories	13	18	18
Trade and other receivables	14	1,664	1,652
Cash and cash equivalents		97	103
Assets held for sale		1	-
TOTAL CURRENT ASSETS		1,780	1,773
TOTAL ASSETS		5,661	5,645
CURRENT LIABILITIES			
Trade and other payables	15	(228)	(224)
Corporation tax liability		(2)	(12)
Borrowings	16	(82)	(75)
Derivative financial instruments	17	(43)	(44)
TOTAL CURRENT LIABILITIES		(355)	(355)
NET CURRENT ASSETS		1,425	1,418
TOTAL ASSETS LESS CURRENT LIABILITIES		5,306	5,290
NON-CURRENT LIABILITIES			
Borrowings	16	(1,783)	(1,865)
Derivative financial instruments	17	(248)	(358)
Deferred tax liabilities	19	(283)	(286)
Provisions	20	(8)	(3)
TOTAL NON-CURRENT LIABILITIES		(2,322)	(2,512)
TOTAL LIABILITIES		(2,677)	(2,867)
NET ASSETS		2,984	2,778
EQUITY			
Share capital	21	4	4
Hedging reserve		(242)	(334)
Revaluation reserve		1,065	1,018
Profit and loss account		2,157	2,090
TOTAL EQUITY		2,984	2,778

Approved by the Board and authorised for issue on 22 November 2017. They were signed on its behalf by:

A W Vaughan
Director

The notes on pages 14 to 34 form an integral part of these financial statements.

Mitchells & Butlers Retail Limited

Statement of Changes in Equity for the 53 weeks ended 30 September 2017

	Share capital £m	Share premium £m	Revaluation reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
At 27 September 2015	4	1,561	1,040	(236)	248	2,617
Profit for the period	-	-	-	-	100	100
Other comprehensive income	-	-	192	(98)	7	101
Total comprehensive income	-	-	192	(98)	107	201
Dividends	-	-	-	-	(40)	(40)
Share capital issued	214	-	(214)	-	-	-
Capital reduction	(214)	(1,561)	-	-	1,775	-
At 24 September 2016	4	-	1,018	(334)	2,090	2,778
Profit for the period	-	-	-	-	110	110
Other comprehensive income	-	-	47	92	2	141
Total comprehensive income	-	-	47	92	112	251
Dividends	-	-	-	-	(45)	(45)
At 30 September 2017	4	-	1,065	(242)	2,157	2,984

The notes on pages 14 to 34 form an integral part of these financial statements.

1. Accounting policies

Summary of significant accounting policies and key accounting estimates

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

Basis of preparation

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

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. Where relevant, equivalent disclosures have been given in the Annual Report and Accounts 2017 of Mitchells & Butlers plc.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

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

Accounting reference date

The Company's accounting reference date is 30 September. The Company draws up its financial statements to the Saturday directly before or following the accounting reference date, as permitted by section 390 (3) of the Companies Act 2006. The period ended 30 September 2017 includes 53 trading weeks and the period ended 24 September 2016 includes 52 trading weeks.

Consolidation

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

Going concern

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

Critical accounting judgements and estimates

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

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

Critical judgements are described in:

- Note 4 – Separately disclosed items
- Note 10 – Property, plant and equipment
- Note 20 – Provisions

Critical estimates are described in:

- Note 10 – Property, plant and equipment

Adoption of new and revised Standards

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

1. Accounting policies (continued)

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

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

Separately disclosed items
In addition to presenting information on an IFRS basis, the Company also presents adjusted profit information that excludes separately disclosed items. This adjusted information is disclosed to allow a better understanding of the adjusted trading performance of the Company and is consistent with the Company'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, restructuring costs, onerous lease provision movements and effects of corporation tax rate change.

Property, plant and equipment
The majority of the Company'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.

1. Accounting policies (continued)

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; 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 (comprising land and buildings and fixtures, fittings and equipment) 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.

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.

Investments in subsidiaries
Investments in subsidiaries are stated at cost less any provision for impairment.

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

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

Inventories
Inventories are stated at the lower of cost and net realisable value.

Trade payables
Trade and other payables are recognised at original cost.

1. **Accounting policies (continued)**

Taxation
The income tax expense represents both the income tax payable, based on profits for the period, and deferred tax and is calculated using tax rates enacted or substantively enacted at the balance sheet date. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense which are not taxable. Income tax is recognised in the income statement except when it relates to items charged or credited directly to equity, in which case the income tax is also charged or credited to equity.

Deferred tax 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. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying value of assets and liabilities.

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

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

Provisions
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.

Leases
Operating leases - Company 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 Company'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 - Company as lessor
Rental income from operating leases is recognised on a straight-line basis over the term of the lease.

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

Pensions
The Company's profit and loss account charge in respect of its defined contribution arrangements is equal to the contributions payable for the period.

Mitchells & Butlers plc, the sponsoring employer, accounts for pensions in accordance with IAS 19 Employee Benefits. Since there is no contractual agreement or policy in place to allocate the defined benefit plan across the subsidiaries that each employ members of these plans, which include the Company, the net defined benefit cost is recognised by Mitchells & Butlers plc.

The total liability in the Mitchells & Butlers plc pension plans, as measured on an IAS 19 basis, is recorded in the financial statements of Mitchells & Butlers plc, the sponsoring employer of the Mitchells & Butlers pension plans.

1. **Accounting policies (continued)**

Share based payments
Share options and share awards are granted to employees of the Company by Mitchells & Butlers plc. Mitchells & Butlers plc accounts for share options and share awards in accordance with IFRS 2 Share-based Payment. 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 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 Company. Fair values are calculated using either the Black-Scholes, Binomial or Monte Carlo simulation models depending upon the conditions attached to the particular share scheme.

The Company's profit and loss account charge in respect of share-based payments represents an allocation of the overall charge incurred by the Group.

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

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

Impairment
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 and finance lease receivables, 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 Company'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.

1. Accounting policies (continued)

Financial Instruments (continued)
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 16. Other financial liabilities are initially measured at fair value, net of transaction costs.

Derecognition of financial assets and liabilities
The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

Derivative financial instruments and hedge accounting
The Company uses interest rate 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.

2. Revenue

Mitchells & Butlers Retail Limited is a wholly owned subsidiary of Mitchells & Butlers Retail Holdings Limited with its operations falling under a single class of business and all residing within the UK. As such the Company reports only a single business segment. Disclosures under IFRS 8 Segmental Reporting are only provided at a Group level and are available in the Mitchells & Butlers plc Annual Report and Accounts 2017.

3. Operating costs

Operating costs are analysed as follows:	Note	53 weeks ended 30 September 2017 £m	52 weeks ended 24 September 2016 £m
Raw materials and consumables recognised as an expense		433	424
Changes in inventories of finished goods and work in progress		1	-
Employee costs	5	458	424
Hire of plant & machinery		17	15
Operating lease expense - property		25	24
Other costs		364	360
Depreciation expense	10	88	88
Amortisation expense	9	1	1
Total operating costs		1,387	1,336

Fees paid to Deloitte LLP for the audit of the Company's accounts were £0.15m (2016 £0.15m). The fee is borne on behalf of the Company by another Group company. Fees paid to Deloitte LLP and their associates for non-audit services are not disclosed for the Company since the Annual Report and Accounts 2017 of Mitchells & Butlers plc, the ultimate parent of Mitchells & Butlers Retail Limited discloses such fees on a consolidated basis.

4. Separately disclosed items

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.

The items identified are as follows:

	Note	53 weeks ended 30 September 2017 £m	52 weeks ended 24 September 2016 £m
Profit on property disposals		-	(1)
Movement in the valuation of the property portfolio:			
Impairment arising from the revaluation	10	22	20
Impairment of short leasehold and unlicensed properties	10	4	1
Impairment of assets held for sale[a]	10	2	-
Net movement in the valuation of the property portfolio		28	21
Other adjusted items:			
Onerous lease provision additions[b]	20	5	-
Total adjusted items		33	20

4. Separately disclosed items (continued)

a. £31m of properties were classified as held for sale in November 2016. An impairment of £2m was recognised prior to reclassification, as the fair value less costs to sell of the group of properties was below the carrying value. Subsequently, £30m of properties were sold in July 2017, leaving £1m remaining as held for sale at the balance sheet date.

b. 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 20 for further details.

5. Employee costs

	53 weeks ended 30 September 2017 £m	52 weeks ended 24 September 2016 £m
Wages and salaries	426	396
Social security costs	28	24
Pension costs, defined contribution scheme	3	3
Share-based payments*	1	1
Total employee costs	458	424

* Full disclosure of the share schemes in operation during the period, and their valuations, are provided in the Mitchells & Butlers plc Annual Report and Accounts 2017.

Average number of employees

The average number of persons employed by the Company during the period, including part time employees, was 33,283 (2016 32,213). All employees are retail employees.

Directors' remuneration

The four Directors who served during the period were all employed by another Group company (Mitchells & Butlers Leisure Retail Limited) and are also Directors of other subsidiary companies of the Mitchells & Butlers plc Group. The Directors received total remuneration of £0.9m (2016 £0.9m) in respect of their services to the Group, but it is not practical to allocate this between each of the subsidiary companies for which they act as a Director. At the period end four (2016 four) of the Directors were members of the Group's defined contribution scheme, with two (2016 two) Directors also holding accrued service within the Group's defined benefit scheme.

The highest paid Director received emoluments of £0.3m (2016 £0.3m), with Company contributions to defined contribution pension schemes of £nil (2016 £nil).

Pensions

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.

From 1 January 2013 Mitchells & Butlers plc implemented a workplace pension plan in line with the Workplace Pensions Reform Regulations. This automatically enrols all eligible workers into a Qualifying Workplace Pension Plan.

Defined contribution scheme

The Company's profit and loss account charge in respect of its defined contribution arrangements is equal to the contributions payable for the period.

In the 53 weeks ended 30 September 2017, the Mitchells & Butlers plc Group paid £7m (2016 £7m) in respect of the defined contribution arrangements. The pension charge in respect of the defined contribution arrangements included in the profit and loss account of the Company for the 53 weeks ended 30 September 2017 was £3m (2016 £3m).

5. Employee costs (continued)

Defined benefit scheme
The defined benefit sections of the plans closed to new entrants during 2002 with new members provided with defined contribution arrangements. On 13 March 2011 the defined benefit plan was closed to future accrual. At the same time Mitchells & Butlers plc implemented a revised defined contribution benefit structure. 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.

Measurement of assets and liabilities
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.

Full disclosure of assumptions and the valuation is provided in the Mitchells & Butlers plc Annual Report and Accounts 2017.

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 Group IAS 19 deficit calculated on this basis is £292m (2016 £337m).

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.

6. Finance revenue

	53 weeks ended 30 September 2017 £m	52 weeks ended 24 September 2016 £m
Finance revenue intercompany	1	1

7. Finance costs

	53 weeks ended 30 September 2017 £m	52 weeks ended 24 September 2016 £m
Intercompany interest on Term Advances	120	121
Liquidity facility fees reimbursed to Mitchells & Butlers Finance plc	3	4
Total finance costs	123	125

8. Taxation

	53 weeks ended 30 September 2017 £m	52 weeks ended 24 September 2016 £m
Taxation – income statement		
Current taxation		
UK corporation tax	27	28
Amounts (over)/under provided in prior periods	(3)	19
Group relief received for nil payment	(8)	(1)
	16	46
Deferred taxation		
Origination and reversal of temporary differences	(12)	(6)
Change in tax rate	-	(10)
Adjustments in respect of prior periods	-	(3)
	(12)	(19)
Total tax charged in the income statement	4	27

The tax in the income statement for the period is lower (2016 higher) than the standard rate of corporation tax in the UK.

The differences are reconciled below:

	53 weeks ended 30 September 2017 £m	52 weeks ended 24 September 2016 £m
Profit before tax	114	127
Taxation charge at the UK standard rate of corporation tax of 19.5% (2016 20.0%)	22	25
Expenses not deductible	2	-
Adjustments in respect of prior periods	(3)	17
Income not taxable	(11)	(4)
Group relief	(8)	(1)
Tax credit in respect of change in UK tax rate	-	(10)
Effect of different tax rates for deferred tax and corporation tax	2	-
Total tax charge	4	27
Further analysed as tax relating to:		
Profit before tax and adjusted items	24	23
Adjusted items	(20)	4
	4	27

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 balance at 30 September 2017 and 24 September 2016.

8. Taxation (continued)

	53 weeks ended 30 September 2017 £m	52 weeks ended 24 September 2016 £m
Taxation – Other comprehensive income		
Deferred tax:		
Items that will not be reclassified subsequently to profit or loss:		
Unrealised gains due to revaluations - revaluation reserve	10	2
Unrealised gains due to revaluations - retained earnings	(2)	2
Rolled over and heldover gains - retained earnings	-	(9)
	8	(5)
Items that may be reclassified subsequently to profit or loss:		
Cash flow hedges	19	(9)
Total tax expense/(credit) recognised in other comprehensive income	27	(14)

9. Intangible assets

	Software costs £m
Cost	
At 24 September 2016	3
Additions	-
At 30 September 2017	3
Amortisation	
At 24 September 2016	1
Amortisation charge	1
At 30 September 2017	2
Carrying amount	
At 30 September 2017	1
At 24 September 2016	2

10. Property, plant and equipment

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 Company 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 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 25. The carrying value of properties to which these estimates apply is £3,692m (2016 £3,325m).

10. Property, plant and equipment (continued)

	Land & buildings £m	Fixtures, fittings & equipment £m	Total £m
Cost or valuation			
At 24 September 2016 (restated*)	3,406	906	4,312
Additions	31	90	121
Disposals[a]	(8)	(60)	(68)
Revaluation	30	(1)	29
Transfers to assets held for sale	(21)	(21)	(42)
At 30 September 2017	**3,438**	**914**	**4,352**
Depreciation			
At 24 September 2016 (restated*)	66	466	532
Provided in the period	3	85	88
Disposals[a]	(6)	(59)	(65)
Transfers to assets held for sale	(1)	(10)	(11)
At 30 September 2017	**62**	**482**	**544**
Carrying amount			
At 30 September 2017	**3,376**	**432**	**3,808**
At 24 September 2016 (restated*)	3,340	440	3,780

*An amount of £38m (cost of £72m less depreciation of £34m) at 24 September 2016 has been reclassified to fixtures and fittings 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.

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 £62m movement in their valuation. It is estimated that a 0.1 change in the multiple would generate an approximate £28m movement in valuation.

Impairment review of short leasehold and unlicensed properties
Short leasehold and unlicensed properties 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.

10. Property, plant and equipment (continued)

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:

	53 weeks ended 30 September 2017 £m	52 weeks ended 24 September 2016 £m
Income statement		
Revaluation loss charged as an impairment	(71)	(82)
Reversal of past impairments	49	62
Total impairment arising from the revaluation	(22)	(20)
Impairment of short leasehold	(4)	(1)
Impairment of assets held for sale	(2)	-
	(28)	(21)
Revaluation reserve		
Unrealised revaluation surplus	179	293
Reversal of past revaluation surplus	(122)	(99)
	57	194
Net increase in property, plant and equipment	29	173

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. Disclosure of the key inputs to the valuation are provided in the consolidated Annual Report and Accounts of Mitchells and Butlers plc.

The split of the net book value of property, plant and equipment are as follows:

30 September 2017	Number of pubs	Net book value[a] £m
Freehold properties	1,130	3,432
Long leasehold properties	81	260
Total revalued properties	1,211	3,692
Short leasehold properties		96
Unlicensed properties		15
Assets under construction		5
Total property, plant and equipment		3,808

24 September 2016	Number of pubs	Net book value[a] £m
Freehold properties	1,180	3,405
Long leasehold properties	83	256
Total revalued properties	1,263	3,661
Short leasehold properties		99
Unlicensed properties		15
Assets under construction		5
Total property, plant and equipment		3,780

a. The carrying value of freehold and long leasehold properties based on their historical cost is £2,264m and £171m respectively (2016 £2,291m and £172m).

Year on year movements in valuation multiples are the result of changes in property market conditions.

10. Property, plant and equipment (continued)

Assets in the course of construction

Cost at 30 September 2017 includes £5m (2016 £5m) of assets in the course of construction.

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.

£31m of properties were classified as held for sale in November 2016. An impairment of £2m was recognised prior to reclassification, as the fair value less costs to sell of the group of properties was below the carrying value.

Subsequently, £30m of properties were sold in July 2017, leaving £1m remaining as held for sale at the balance sheet date.

11. Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements in relation to property, plant and equipment was £12m (2016 £12m).

12. Investments in subsidiaries

	£m
Cost	
At 30 September 2017 and 24 September 2016	32
Provision	
At 30 September 2017 and 24 September 2016	11
Carrying amount	
At 30 September 2017 and 24 September 2016	21

Details of the subsidiaries as at 30 September 2017 are as follows:

Name of subsidiary	Country of incorporation and place of business	Holding	Proportion of voting rights and shares held	Principal activity
Old Kentucky Restaurants Limited*	England and Wales	Ordinary shares	100%	Trademark Owner
Browns Restaurant (Brighton) Limited	England and Wales	Ordinary shares	100%	Dormant
Browns Restaurant (Bristol) Limited	England and Wales	Ordinary shares	100%	Dormant
Browns Restaurant (Cambridge) Limited	England and Wales	Ordinary shares	100%	Dormant
Browns Restaurant (London) Limited	England and Wales	Ordinary shares	100%	Dormant
Browns Restaurant (Oxford) Limited	England and Wales	Ordinary shares	100%	Dormant
Browns Restaurants Limited*	England and Wales	Ordinary shares	100%	Dormant

* indicates direct investment of the Company

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

Investments have been tested for impairment by reviewing net asset values of subsidiary companies.

13. Inventories

	30 September 2017 £m	24 September 2016 £m
Finished goods and goods for resale	18	18

14. Trade and other receivables

	30 September 2017 £m	24 September 2016 £m
Trade receivables	2	2
Amounts owed from group undertakings*	1,646	1,646
Prepayments	14	4
Other receivables	2	-
Total trade and other receivables	1,664	1,652

* Includes an amount of £1,362m (2016 £1,362m) owed by Mitchells and Butlers Retail Holdings Limited and £282m (2016 £282m) owed by Mitchells & Butlers plc. These amounts are non-interest bearing loans

15. Trade and other payables

	30 September 2017 £m	24 September 2016 £m
Accrued expenses	46	45
Social security and other taxes	43	46
Other payables	28	16
Amounts owed to group undertakings*	111	117
Total trade and other payables	228	224

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

16. Borrowings

	30 September 2017 £m	24 September 2016 £m
Maturity profile		
Amounts falling due within one year	82	75
Amounts falling due after more than one year:		
Between one and two years	86	82
Between two and five years	307	285
After five years	1,390	1,498
	1,783	1,865
Total borrowings	1,865	1,940

16. Borrowings (continued)

Term advances from Mitchells & Butlers Finance plc
Under an Issuer/Borrower Facility Agreement dated 13 November 2003, amended and restated on 15 September 2006, the Company borrowed £1,900m from Mitchells & Butlers Finance plc.

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

Term advances from Mitchells & Butlers Finance plc (continued)
At 30 September 2017 the Term Advances consisted of ten tranches as follows:

Tranche	Initial principal lent £m	Interest	Principal repayment period (all by instalments)	Effective interest rate %	Principal outstanding at 30 September 2017 £m	Principal outstanding at 24 September 2016 £m	Expected weighted average life** (years)
A1N	200	Floating	2011 to 2028	6.22*	142	152	6 years
A2	550	Fixed – 5.57%	2003 to 2028	6.02	258	276	6 years
A3N	250	Floating	2011 to 2028	6.30*	178	189	6 years
A4	170	Floating	2016 to 2028	5.98*	159	168	6 years
AB	325	Floating	2020 to 2032	5.75*	325	325	11 years
B1	350	Fixed – 5.97%	2003 to 2023	6.13	119	135	3 years
B2	350	Fixed – 6.01%	2015 to 2028	6.13	326	339	7 years
C1	200	Fixed – 6.47%	2029 to 2030	6.57	200	200	12 years
C2	50	Floating	2033 to 2034	6.48*	50	50	16 years
D1	110	Floating	2034 to 2036	6.69*	110	110	18 years
	2,555				1,867	1,944	

* Effective interest on floating rate notes is stated after the effect of interest rate swaps.
** The expected remaining weighted average life is based on the Term Advances being held to maturity.

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

At 30 September 2017 interest and margin is receivable on the floating rate Term Advances as follows:

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

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

	30 September 2017 £m	24 September 2016 £m
Principal outstanding at start of period	1,944	2,010
Principal repaid during the period	(77)	(66)
Principal outstanding at end of period	1,867	1,944
Deferred issue costs	(6)	(7)
Accrued interest	4	3
Carrying value at end of period	1,865	1,940

The Term Advances are secured on the Company's assets and future income streams therefrom.

16. Borrowings (continued)

The securitisation is governed by various covenants, warranties and events of default, many of which apply to the Company, being 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, the Company had cash and cash equivalents of £97m (2016 £103m) which were governed by the covenants associated with the securitisation. Of these amounts £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.

17. Hedging Instruments

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

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

Credit risk and impairment
The Company is exposed to risk against counterparties to its financial assets from its derivative financial instruments which are used for risk management purposes and the investment of surplus funds. To mitigate this exposure, the Group Treasury function operates policies that restrict the investment of surplus funds and the entering into of derivative transactions to counterparties that have an appropriate credit rating. Counterparties may also be required to post collateral with the Group where their credit rating falls below a predetermined level.

The amount that can be invested or transacted at various ratings levels is restricted under the policy. To minimise credit risk exposure against individual counterparties, investments and derivative transactions are entered into with a range of counterparties. The Group Treasury function reviews credit ratings, as published by Moody's, Standard & Poor's and Fitch Ratings, current exposure levels and the maximum permitted exposure at given credit ratings, for each counterparty on a daily basis. Any exceptions are required to be formally reported to the Mitchells & Butlers Treasury Committee on a four weekly basis.

The Company's credit exposure as at 30 September 2017 was:

	30 September 2017 £m	24 September 2016 £m
Cash and cash equivalents	97	103
Trade receivables	2	2
Other receivables	2	-
Amounts owed by group undertakings	1,646	1,646

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

Interest rate risk
The Company has a mixture of fixed and floating interest rate debt instruments and manages the variability in cash flows resulting from changes in interest rates by using derivative financial instruments. The Company minimises the volatility in its financial statements through the adoption of the hedge accounting provisions permitted under IAS 39: Financial instruments: Recognition and Measurement. The interest rate exposure resulting from the Company's Term Advances from Mitchells & Butlers Finance plc is fixed, either as a result of the notes themselves being issued at fixed interest rates, or through a combination of floating rate notes against which 100% effective interest rate swaps are held, which are eligible for hedge accounting.

17. Hedging Instruments (continued)

Foreign exchange risk
The Company has no significant profit and loss exposure as a result of retranslating monetary assets and liabilities at different exchange rates. As the Company has no material exposure to movements in interest or exchange rates, no sensitivity analysis has been disclosed.

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

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
30 September 2017							
Term Advances	(194)	(193)	(197)	(199)	(199)	(1,880)	(2,862)
24 September 2016							
Term Advances	(194)	(194)	(193)	(197)	(199)	(2,078)	(3,055)

Cash flow hedges
The Company holds six interest rate swaps with Mitchells & Butlers Finance plc. These are designated as a hedge of the cash flow and principal interest rate risk of the Company's floating rate Term Advances, comprising the A1N, A3N, A4, AB, C2 and D1 Term Loans. The cash flows occur quarterly, receiving a fixed rate of interest and paying a floating rate interest based on LIBOR. The contract maturity dates match those of the hedged item.

The six interest rate swaps held with Mitchells & Butlers Finance plc have a nominal value of £963m (2016 £994m). These are designated as a hedge of the cash flow and principal interest rate risk of £963m (2016 £994m) of the Company's floating rate Term Advances, comprising the A1N, A3N, A4, AB, C2 and D1 Term Loans. The cash flows occur quarterly, receiving a fixed rate of interest of 4.8712% (2016 4.8785%) and paying a floating rate of interest based on LIBOR. The contract maturity dates match those of the hedged item.

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

	30 September 2017 £m	24 September 2016 £m
Gains/(losses) arising during period	67	(150)
Reclassification adjustments for losses included in profit or loss	44	43
Net movement in cash flow hedges recognised in equity	111	(107)

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

	30 September 2017		24 September 2016	
	Net book value £m	Fair value £m	Net book value £m	Fair value £m
Cash	97	97	103	103
Borrowings	(1,865)	(1,865)	(1,940)	(1,940)
Intercompany interest rate swaps	(291)	(291)	(402)	(402)

The fair value of the interest rate swaps is the estimated amount the Company could expect to pay or receive on termination of the agreement. These amounts are based on the valuations of the corresponding external swaps in the Group which are based on the quotations from counterparties and take into consideration interest rates prevailing at the balance sheet date. Other financial assets and liabilities are either short term in nature or their book values approximate to fair values.

17. Hedging Instruments (continued)

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

	Total liabilities	
	Less than one year £m	More than one year £m
30 September 2017		
Intercompany interest rate swaps	(43)	(248)
24 September 2016		
Intercompany interest rate swaps	(44)	(358)

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

18. Lease commitments

Operating leases

Company as lessee
The vast majority of the Company'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.

Company as lessor
The Company 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.

Operating lease commitments – Company as lessee
The total future minimum lease rental payments under non-cancellable operating leases are as follows:

	30 September 2017 £m	24 September 2016 £m
Due within one year	21	21
Between one and five years	77	77
After five years	177	183
	275	281

Operating lease receivables – Company as lessor
The total future minimum lease rental receipts under non-cancellable operating leases are as follows:

	30 September 2017 £m	24 September 2016 £m
Due within one year	6	6
Between one and five years	20	19
After five years	23	23
	49	48

19. Deferred tax

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

	30 September 2017 £m	24 September 2016 £m
Deferred tax liability		
Accelerated tax depreciation	(35)	(37)
Revaluation of property	(154)	(149)
Rolled over and held over gains	(92)	(96)
Depreciated non-qualifying assets	(2)	(4)
	(283)	(286)
Deferred tax asset		
Derivatives	50	68
	50	68
	(233)	(218)

	53 weeks ended 30 September 2017 £m	52 weeks ended 24 September 2016 £m
Deferred tax in the income statement		
Accelerated tax depreciation	(2)	(8)
Revaluation of property	(4)	2
Rolled over and held over gains	(4)	(11)
Depreciated non-qualifying assets	(2)	(1)
Total deferred tax charge in the income statement	(12)	(18)

20. Provisions

The provision for property leases has been set up to cover operating costs of vacant or loss-making properties. Payments are expected to continue on these properties for periods of 1 to 11 years.

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.

Provisions can be analysed as follows:

	Property leases £m
At 24 September 2016	3
Provided in the period[a]	6
Provisions used	(1)
At 30 September 2017	8

a. 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. With 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 site 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 £5m increase in the provision which has been included as a separately disclosed item (see note 4).

The remaining increase of £1m is recognised within adjusted profit, as this represents unavoidable losses on properties outside of the managed estate. There is no change in approach for these sites from the prior period.

21. Share capital

	30 September 2017		24 September 2016	
	No.	£	No.	£
Ordinary shares of £1 each	3,882,000	3,882,000	3,882,000	3,882,000
Ordinary shares of £0.0001 each	214,000,000	21,400	214,000,000	21,400
	217,882,000	3,903,400	217,882,000	3,903,400

The A ordinary shares are entitled to 99.9% of the vote on a poll, 100% of any dividends or distributions declared and 100% of any capital to be returned on winding up or any reduction or return of capital.

The ordinary shares are entitled to 0.1% of the vote on a poll, and will not be entitled to any dividends or distributions declared, nor of any capital to be returned on winding up nor on any reduction or return of capital.

22. Dividends

During the period, the Company has paid dividends of £45m (2016 £40m). Dividend payments are made by the Company to its immediate parent undertaking, Mitchells & Butlers Retail Holdings Limited.

The Directors are proposing a final dividend of £nil (2016 £nil).

23. Contingent liabilities

Pursuant to the securitisation of the business of Mitchells & Butlers Retail Limited on 13 November 2003, the Company is jointly and severally liable with various other companies within the Mitchells & Butlers plc Group, for all advances made by Mitchells & Butlers Finance plc to the Company and other companies within the Mitchells & Butlers Group, under an Issuer/Borrower Facility Agreement dated 13 November 2003, as amended and restated on 15 September 2006.

On 13 November 2003, the Company and certain other members of the Mitchells & Butlers plc Group granted full fixed and floating security over their respective assets and cash flows.

24. Ultimate parent undertaking

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

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

Relationship between entity and parents

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

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

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