Mitchells & Butlers Retail Limited

Report and Financial Statements

For the 52 weeks ended 26 September 2015

-Registered Number: 24542

STRATEGIC REPORT
For the 52 weeks ended 26 September 2015

BUSINESS MODEL

The Company is a UK operator of pubs and restaurants with an estate of 1,361 managed outlets and 49 leased and franchised outlets at 26 September 2015 (2014 1,365 managed outlets and 49 leased and franchised outlets).

Turnover for the period was £1,627m (2014 £1,613m) with profit for the period before taxation of £118m (2014 £100m). Taxation charged against the profit for the period was £13m (2014 £22m) leaving a profit after tax of £105m (2014 £78m). At the balance sheet date the Company recorded net assets of £3,116m (2014 £3,037m).

Our strategy is to focus on the long-term growth of food within the £78bn eating and drinking out market, with the majority of our turnover coming from guests eating in our pubs and restaurants.

In FY 2015 we have made good progress against our objectives. Sales started the year well but softened as we progressed through the year. The summer weather undoubtedly did not help, with beer gardens not seeing the benefit of any sustained period of sunshine. Other factors such as supply into the market and consumers deferring expenditure to higher-priced items such as holidays abroad also had an impact. These are challenges which we must face and address.

FY 2015 also saw the completion of the EPOS systems projects, with new payment systems, tills, handheld devices and kitchen management equipment now rolled out across the estate.

Market supply

In recent years the overall eating and drinking out market has changed significantly. We have seen the number of restaurants increase, with net openings of around 1,700 in the last year, and close to 5,000 from 2012 to 2015. Within this number, there have been close to 3,500 restaurant closures, and many more pub closures, highlighting the ongoing structural change in the market and the competitive environment in which we are all operating.

The composition of the market has changed: independent restaurants and tenanted pubs have reduced, with growth coming from the branded sector and fast food. Much of the new competition in the sector is 'fast-casual', with operators often single-brand focused, with a relatively small number of outlets and flexibility to keep offers fresh and up-to-date.

Consumers

The changing competitive landscape is very much linked to the evolving consumer. Expectations are rising on the quality, environment, value and offers available. Value continues to be important, although crucially this does not just equal low price. Consumers continue to broaden their horizons for eating and drinking out. There is also a greater demand for personalisation – the mindset of having "what I want and when I want it" continues to develop.

Consumers' lifestyles are also influencing the way they eat and drink out. Alcohol consumption is reducing compared to previous generations, and there is a general trend towards health consciousness, although there is very much still a willingness to occasionally indulge in 'guilty pleasures'.

The impact of technology is also notable on consumers, with them being digitally connected in all aspects of life.

Brands

Our branded sites are clearly an area of strength for the business, with national presence and enduring guest appeal. This strength is evident from the strong returns on investment we have generated from converting Orchid sites to our brands. We need to continue to ensure that all of our branded offers have a clear and targeted proposition, and that they remain relevant to our guests.

We must also ensure that we have the appropriate balance of brands, and number of sites within each brand, according to demographics and changing consumer needs. This will mean accelerating conversions to our most successful smaller brands, and aggressively defending the more mature established brands.

STRATEGIC REPORT
For the 52 weeks ended 26 September 2015

BUSINESS MODEL (CONTINUED)

Innovation

We need to approach innovation from all angles: new product development, the use of technology to improve efficiency, and digital innovation to drive the best engagement with our guests.

Given the competitive environment, we need to increase our willingness to undertake trial activity, and accelerate the rollout of those which are successful. This will take the form of improving the return from our existing assets, but also new product development to exploit further market opportunities.

Our guests are increasingly digitally connected in all aspects of their life. This provides a significant opportunity for us, to communicate with and reach our guests in a variety of new ways, to engage with them with new offers, and to get a deeper understanding of consumer preferences to further drive insight.

KEY PERFORMANCE INDICATORS

The Company is the principal trading division of the Mitchells & Butlers plc Group and 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 2015 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 reasons for the movements can be found in the Annual Report and Accounts 2015 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 2015 of Mitchells & Butlers plc. These include, but are not restricted to the following:

Market risks

Consumer taste and brand management

Social and demographic changes are driving the long-term growth in eating-out while at the same time leading to a steady decline in the sales of on-trade drinks without food. These changes, together with other developments in consumer taste may reduce the appeal of brands to its guests, especially if the Company fails to anticipate and identify these changes and respond to them adequately and promptly.

The Company uses an online guest satisfaction survey to collect guest feedback. This feedback together with the results of research studies is monitored and evaluated by a dedicated guest insight team to ensure that the relevance to customers of the Company's brands is maintained.

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 and therefore the Company's revenue, profitability and consequently the value of its assets.

The Company's business is focused on the long-term potential of the eating-out market. The Company owns sites across the UK with a wide spectrum of customer offers targeted at different consumer groups and leisure occasions. This range allows the Company to respond to changes in consumer expenditure either by flexing our offerings or by substituting a different brand at a particular location.

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Operational risks

People planning and development

The business has a strong customer focus, and as such it is important that it is able to attract, retain, develop and motivate the best people with the right capabilities throughout the organisation.

The Company 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 compare it 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 Company relies on its food and drink supply chain and the key IT systems underlying the business to serve its customers 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 Company has in place crisis and continuity plans that are tested and refreshed regularly.

National living wage

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

A review of mitigating actions to be regarded as contingencies has been undertaken.

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 Company 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 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 & legally

A major health and safety failure could lead to illness, injury or loss of life or significant damage to the Company's or a brand's reputation.

The Company maintains a robust programme of health and safety checks both within its restaurants and pubs and throughout the supply chain. 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.

STRATEGIC REPORT
For the 52 weeks ended 26 September 2015

FUTURE DEVELOPMENT

The Company has developed its business strategy to focus on the growth parts of the eating and drinking-out market. The strategy to achieve this goal has five elements:

- Focusing the business on the most attractive market spaces within eating and drinking out;
- Developing superior brand propositions with high levels of consumer relevance;
- Recruiting, retaining and developing engaged people who deliver excellent service for our guests;
- Generating high returns on investment through scale advantage; and
- Maintaining a sound financial base.

By order of the Board

A W Vaughan
Director
23 November 2015

DIRECTORS' REPORT
For the 52 weeks ended 26 September 2015

The Directors present their report on the affairs of the Company, together with the financial statements and independent auditor's report, for the 52 weeks ended 26 September 2015. The comparative period is for the 52 weeks ended 27 September 2014.

DIVIDENDS

During the period, the Company declared and paid dividends of £35m (2014 £73m). No dividends were proposed at the period end (2014 £nil).

SECURITISATION

Since November 2003, the Company has operated within the Mitchells & Butlers securitisation structure. Under this securitisation structure, the Company has borrowed £2,010m (2014 £2,071m) 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 there from. 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. Further details are provided in note 14 to the financial statements.

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. MAB Leisure Retail, a management and service company, 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

The following served as Directors of the Company during the period and subsequently:

S K Martindale
L J Miles
A W Vaughan
G McMahon

DIRECTORS' REPORT
For the 52 weeks ended 26 September 2015

EMPLOYMENT POLICIES

The company employed an average of 32,106 people in 2015 (2014 32,292). 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.

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 dedicated portal, 'Our Hub';
- a monthly magazine poster, Frontline News;
- 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.

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.

A resolution to re-appoint Deloitte LLP will be put to the forthcoming Annual General Meeting.

By order of the Board

A W Vaughan
Director
23 November 2015

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 period. 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). 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 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

We have audited the financial statements of Mitchells & Butlers Retail Limited for the 52 weeks ended 26 September 2015 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Statement of Historical Cost Profits and Losses, the Balance Sheet, and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of Directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 26 September 2015 and of its profit for the 52 weeks then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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.

Kate Hadley (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
23 November 2015

PROFIT AND LOSS ACCOUNT
For the 52 weeks ended 26 September 2015

	Notes	*52 weeks ended 26 September 2015 £m*	*52 weeks ended 27 September 2014 £m*
TURNOVER	2	**1,627**	1,613
Operating costs*	3	**(1,384)**	(1,381)
OPERATING PROFIT		**243**	232
NON-OPERATING EXCEPTIONAL ITEMS			
Profit on disposal of fixed assets**		**4**	-
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		**247**	232
Interest receivable and similar income		**1**	-
Interest payable and similar charges	5	**(130)**	(132)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		**118**	100
Tax on profit on ordinary activities	6	**(13)**	(22)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	17	**105**	78

* 2015 includes an exceptional impairment charge in respect of tangible fixed assets of £30m (2014 £31m).

** Release of an accrual for costs in relation to the disposal of properties in prior periods.

The notes on pages 12 to 25 form an integral part of these financial statements.

All turnover and costs are derived from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the 52 weeks ended 26 September 2015

	52 weeks ended 26 September 2015 £m	*52 weeks ended 27 September 2014 £m*
RETAINED PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	105	78
Unrealised gain on revaluation of the property portfolio	9	54
TOTAL RECOGNISED GAINS AND LOSSES	114	132

STATEMENT OF HISTORICAL COST PROFITS AND LOSSES
For the 52 weeks ended 26 September 2015

	52 weeks ended 26 September 2015 £m	*52 weeks ended 27 September 2014 £m*
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	118	100
Realisation of property revaluation surplus on sale of properties	-	1
HISTORICAL COST PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	118	101
HISTORICAL COST PROFIT RETAINED AFTER TAXATION	105	79

The notes on pages 12 to 25 form an integral part of these financial statements.

BALANCE SHEET
At 26 September 2015

	Notes	26 September 2015 £m	27 September 2014 £m
FIXED ASSETS			
Tangible assets	8	**3,588**	3,597
Investments	9	**21**	21
		3,609	3,618
CURRENT ASSETS			
Stocks	10	**18**	19
Debtors: amounts falling due within one year	11	**1,666**	1,666
Cash at bank and in hand		**108**	78
		1,792	1,763
CREDITORS: amounts falling due within one year	12	**(294)**	(284)
NET CURRENT ASSETS		**1,498**	1,479
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,107**	5,097
CREDITORS: amounts falling due after more than one year	13	**(1,940)**	(2,006)
PROVISIONS FOR LIABILITIES AND CHARGES	15	**(51)**	(54)
NET ASSETS		**3,116**	3,037
CAPITAL AND RESERVES			
Share capital	16, 17	**4**	4
Share premium account	17	**1,561**	1,561
Revaluation reserve	17	**1,247**	1,238
Profit and loss account	17	**304**	234
SHAREHOLDERS' FUNDS		**3,116**	3,037

The notes on pages 12 to 25 form an integral part of these financial statements.

Signed on behalf of the Board

A W Vaughan
Director
23 November 2015

NOTES TO THE FINANCIAL STATEMENTS
For the 52 weeks ended 26 September 2015

1. ACCOUNTING POLICIES

A summary of the principal accounting policies applied by the Company is set out below. These have been applied consistently over the current and prior period.

Basis of accounting
The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain tangible fixed assets. They comply with applicable accounting standards in the United Kingdom.

Accounting reference date
The Company's accounting reference date is 30 September. The Company has drawn up its financial statements for the 52 weeks to 26 September 2015, the Saturday directly preceding the accounting reference date, as permitted by section 390(3) of the Companies Act 2006. The comparative period is for the 52 weeks ended 27 September 2014.

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.

Cash flow
As permitted under FRS1 (Revised 1996) Cash Flow Statements, the Company has taken advantage of the exemption from preparing a cash flow statement as the Company is a wholly owned subsidiary undertaking of Mitchells & Butlers plc whose financial statements for the 52 weeks ended 26 September 2015 include a consolidated cash flow statement incorporating the cash flows of the Company.

Fixed asset investments
Fixed asset investments are stated at cost less any provision for impairment.

Fixed assets and depreciation
The Company revalues the majority of its freehold and long leasehold licensed properties to fair value for accounting purposes, which it reviews at least annually.

Short leasehold properties (properties with an unexpired term of 50 years or less), unlicensed properties and fixtures, fittings and equipment are held at cost less depreciation and impairment.

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.

Any revaluation surplus is credited to the revaluation reserve in the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the profit and loss account, in which case, the increase is recognised in the profit and loss account, less the depreciation that would have been charged had the revaluation decrease not been recognised in the profit and loss account.

A revaluation deficit is recognised in the profit and loss account where it is caused by a clear consumption of economic benefits. Other revaluation deficits are recognised in the statement of total recognised gains and losses until the carrying amount reaches its depreciated historical cost. Thereafter it is recognised in the profit and loss account.

1. ACCOUNTING POLICIES (CONTINUED)

Fixed assets and depreciation (continued)
Surpluses or deficits arising from previous professional valuations of properties, realised on the disposal of an asset, are transferred from the revaluation reserve to the profit and loss account reserve.

Leasehold properties are depreciated over the unexpired term of the lease when less than 50 years.

The cost of fixtures, fittings and equipment is spread, on a straight line basis, over the estimated useful lives of the relevant assets of between 3 and 20 years.

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

Turnover
Turnover represents sales (excluding VAT and similar taxes, coupons and staff discounts) of goods and services provided in the normal course of business.

Turnover primarily comprises food and beverage sales which are normally recognised and settled at the point of sale to the customer.

Leases
Operating lease rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

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 FRS 17 Retirement 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 deficit in the Mitchells & Butlers plc pension plans, as measured on an FRS 17 basis, is recorded in the financial statements of Mitchells & Butlers plc, the sponsoring employer of the Mitchells & Butlers pension plans.

Taxation
Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are recognised, subject to certain exceptions, in respect of all material timing differences between the recognition of gains and losses in the financial statements and for tax purposes. Those timing differences recognised include accelerated capital allowances and short term timing differences.

Timing differences not recognised include those relating to the revaluation of fixed assets in the absence of a commitment to sell the assets and the gain on sale of assets to the extent that it is more likely than not that they will be rolled over into replacement assets.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is calculated on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

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

1. ACCOUNTING POLICIES (CONTINUED)

Borrowings and derivative financial instruments
Borrowings are stated initially at the amount of the funds raised, net of any facility fees paid. Finance costs, which are the difference between the net proceeds and the total amount of payments to be made in respect of the borrowings, are allocated to periods over the term of the borrowings at a constant rate on the carrying amount.

The amount is increased by the finance cost in respect of the reporting period and reduced by payments made in respect of the borrowings in that period.

Amounts payable and receivable in respect of derivative financial instruments that hedge the interest rate exposures attached to the borrowings are accounted for on an accruals basis and treated as part of the finance cost.

Use of estimates
The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results can differ from those estimates. Estimates are used when accounting for items such as depreciation, asset impairments, pensions and tax.

Share-based payment
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 FRS 20 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.

2. TURNOVER ANALYSIS

Mitchells & Butlers Retail Limited is a wholly owned subsidiary of Mitchells & Butlers plc, with its operations falling under a single class of business and all residing within the UK. As such the Company is not required to complete separate disclosure notes under SSAP 25 Segmental Reporting and opts to disclose only a single business segment.

3. OPERATING COSTS

The following amounts are included within operating costs:	*52 weeks ended 26 September 2015 £m*	*52 weeks ended 27 September 2014 £m*
Hire of plant and machinery	**16**	16
Property operating lease costs	**21**	22
Movements in the valuation of the property portfolio (note 8)*	**30**	31
Depreciation of tangible fixed assets (note 8)	**88**	96

* In the current period £30m (2014 £31m) of movement in the valuation of the property portfolio comprises £2m (2014 £3m) of impairment recognised on short leasehold and unlicensed properties where their carrying values exceed their recoverable amount and £28m charge (2014 £28m) arising from the Company's revaluation of its pub estate.

Fees paid to Deloitte LLP for the audit of the Company's accounts were £0.15m (2014 £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 2015 of Mitchells & Butlers plc, the ultimate parent of Mitchells & Butlers Retail Limited discloses such fees on a consolidated basis.

4. EMPLOYEES AND DIRECTORS

	52 weeks ended 26 September 2015 £m	*52 weeks ended 27 September 2014 £m*
Employee costs during the period amounted to:		
Wages and salaries	377	368
Share-based payments*	1	1
Social security costs	23	22
Pensions	3	3
	404	394

* 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 2015.

Average number of employees

The average number of persons employed by the Company during the period, including part time employees, was 32,106 (2014 32,292).

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 52 weeks ended 26 September 2015, the Mitchells & Butlers plc Group paid £7m (2014 £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 52 weeks ended 26 September 2015 was £3m (2014 £3m).

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.

4. **EMPLOYEES AND DIRECTORS (CONTINUED)**

Defined benefit scheme (continued)

Measurement of assets and liabilities

Mitchells & Butlers plc has accounted for pensions in accordance with FRS 17 Retirement Benefits. The valuations used by Mitchells & Butlers plc for FRS 17 purposes are based on the results of the latest full actuarial valuation carried out at 31 March 2013 and updated by the schemes' qualified actuaries to 26 September 2015. Scheme assets are stated at market value at 26 September 2015 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. Full disclosure of assumptions and the valuation is provided in the Mitchells & Butlers plc Annual Report and Accounts 2015.

Minimum funding requirements

The results of the 2013 actuarial valuation show a funding deficit of £572m, using a more prudent basis to discount the scheme liabilities than is required by FRS 17 and on 21 May 2014 Mitchells & Butlers plc formally agreed a 10 year recovery plan with the Trustees to close the funding deficit in respect of its pension scheme liabilities. As a result the Group agreed to increase additional contributions from £40m to £45m per annum for three years effective from 1 April 2013. From 1 April 2016 the contributions are increased by RPI (capped between 0% and 5%). As part of the recovery plan, the Group has also made a further payment of £40m in September 2015 on terms agreed with the Trustees. 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. The FRS 17 deficit calculated on this basis is £280m (£350m net of deferred tax asset of £70m.)

Directors' remuneration

The four Directors who served during the period were employed by other Group companies and are also Directors of other subsidiary companies of the Mitchells & Butlers plc Group. Four Directors were employed by Mitchells & Butlers Leisure Retail Limited. The Directors received total remuneration of £0.9m (2014 £1.3m) 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 (2014 four) of the Directors were members of the Group's defined contribution scheme, with two (2014 two) Directors also holding accrued service within the Group's defined benefit scheme.

The highest paid Director received emoluments of £0.3m (2014 £0.3m), with Company contributions to defined contribution pension schemes of £nil (2014 £nil).

5. **INTEREST PAYABLE AND SIMILAR CHARGES**

	52 weeks ended 26 September 2015 £m	*52 weeks ended 27 September 2014 £m*
Intercompany interest on Term Advances	125	129
Liquidity facility fees reimbursed to Mitchells & Butlers Finance plc	4	2
Finance costs external	1	1
	130	132

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

Tax charge	*52 weeks ended 26 September 2015 £m*	*52 weeks ended 27 September 2014 £m*
Current tax		
UK corporation tax	24	28
Adjustments in respect of prior periods	(6)	(4)
Group relief received for no consideration	(4)	-
Total current tax	14	24
Deferred tax		
Origination and reversal of timing differences	(1)	(2)
Adjustments in respect of prior periods	-	-
Total deferred tax (note 15)	(1)	(2)
Total tax on profit on ordinary activities	13	22
Further analysed as tax relating to:		
Operating profit before exceptional items	13	24
Exceptional items – current and deferred tax	-	(2)
	13	22

Tax Reconciliation	*%*	*%*
Standard UK corporation tax rate	20.5	22.0
Permanent differences	(5.0)	(3.5)
Capital allowances less than depreciation	0.6	2.4
Other timing differences	0.1	0.2
Adjustments to tax charge in respect of prior periods	(5.2)	(3.3)
Exceptional items	4.6	6.7
Group relief received for no consideration	(3.8)	(0.2)
Effective current tax rate	11.8	24.3

Factors which may affect future tax charges

It was announced in the 2015 Summer Budget that the main rate of corporation tax would be reduced by 1% to 19% on 1 April 2017 and by a further 1% to 18% on 1 April 2020. Neither of these changes had been substantively enacted at the balance sheet date and therefore the effects are not included in these financial statements.

The reduction in the main rate of corporation tax is likely to result in a reduction in future years in the net deferred tax liability provided at the balance sheet date. The full impact of these changes has not yet been quantified.

7. DIVIDENDS

During the period, the Company paid dividends of £35m (2014 £73m). Dividend payments are made by the Company to its immediate parent undertaking, Mitchells & Butlers Retail Holdings Limited. There were no dividends proposed at the period end (2014 £nil).

8. TANGIBLE FIXED ASSETS

	Land & buildings £m	*Fixtures, fittings & equipment £m*	*Total £m*
Cost or valuation			
At 27 September 2014	3,281	807	4,088
Additions	33	67	100
Disposals*	(14)	(50)	(64)
Revaluation**	(20)	(1)	(21)
At 26 September 2015	**3,280**	**823**	**4,103**
Depreciation			
At 27 September 2014	93	398	491
Provided in the period	16	72	88
Disposals*	(14)	(50)	(64)
At 26 September 2015	**95**	**420**	**515**
Net book value			
At 26 September 2015	**3,185**	**403**	**3,588**
At 27 September 2014	3,188	409	3,597

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

** £30m has been charged (2014 £31m) against current period profits (see note 3), with the balance of £9m gain (2014 £54m) recognised through the revaluation reserve (see note 17).

Cost at 26 September 2015 includes £2m (2014 £2m) of assets in the course of construction.

Properties
A policy of valuing the majority of the Company's freehold and long leasehold licensed properties, for accounting purposes, was adopted on 27 September 2008.

Short leasehold properties (properties with an unexpired term of 50 years or less), unlicensed properties and fixtures, fittings and equipment are held at cost less depreciation and impairment.

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.

The freehold and long leasehold licensed properties were valued at market value, as at 26 September 2015 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 the location, the quality of the pub or restaurant and recent market transactions in the sector. Changes in these assumptions such as the valuation basis applied in comparable market transactions, or the income level generated by a pub could materially impact the valuation of the freehold and long leasehold land and buildings. It is estimated that a £1 change in the EBITDA of the freehold and long leasehold land and buildings would generate approximately £8 movement in their valuation.

NOTES TO THE FINANCIAL STATEMENTS
For the 52 weeks ended 26 September 2015

8. TANGIBLE FIXED ASSETS (CONTINUED)

Analysis of land & buildings	*Net Book Value 26 September 2015 £m*	*Net Book Value 27 September 2014 £m*
Freehold properties (at valuation)	2,884	2,872
Long leasehold properties (at valuation)	235	255
Short leasehold and unlicensed properties (at cost)	66	61
Total land & buildings	3,185	3,188

Historical cost of land & buildings	*Net Book Value £m*
At 26 September 2015	1,924
At 27 September 2014	1,929

9. FIXED ASSET INVESTMENTS

	Subsidiary undertakings £m
Cost	
At 26 September 2015 and 27 September 2014	32
Provision	
At 26 September 2015 and 27 September 2014	11
Net book value	
At 26 September 2015 and 27 September 2014	21

Details of the investments in which the Company holds directly all of the share capital are as follows:

Subsidiary undertaking	*Country of incorporation and operation*	*Holding*	*Proportion of voting rights and shares held*	*Nature of Business*
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

10. STOCKS

	26 September 2015 £m	*27 September 2014 £m*
Goods held for resale	**18**	19

The replacement cost of stocks approximates to the value above.

11. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	26 September 2015 £m	*27 September 2014 £m*
Loan to Mitchells & Butlers Retail Holdings Limited*	**1,362**	1,362
Loan to Mitchells & Butlers plc*	**282**	282
Trade debtors	**1**	2
Prepayments	**3**	8
Other debtors	**1**	2
Corporation tax	**6**	7
Amounts owed from fellow subsidiary undertakings	**11**	3
	1,666	1,666

* Non-interest-bearing loan.

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	26 September 2015 £m	*27 September 2014 £m*
Term advances with Mitchells & Butlers Finance plc (note 14)	**66**	61
Amounts owed to fellow subsidiary undertakings	**102**	111
Other taxation and social security	**50**	50
Accruals	**53**	41
Other creditors	**23**	21
	294	284

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	26 September 2015 £m	*27 September 2014 £m*
Term advances with Mitchells & Butlers Finance plc (note 14)	**1,940**	2,006

14. TERM ADVANCES WITH MITCHELLS & BUTLERS FINANCE PLC

Maturity profile	*26 September 2015 £m*	*27 September 2014 £m*
Amounts falling due within one year	**66**	61
Amounts falling due after more than one year:		
Between one and two years	**75**	67
Between two and five years	**263**	242
After five years	**1,602**	1,697
	1,940	2,006
	2,006	2,067

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 in the following six tranches:

- Class A1N floating rate Term Advance for £200,000,000 due 2030;
- Class A2 5.584% Term Advance for £550,000,000 due 2030;
- Class A3N floating rate Term Advance for £250,000,000 due 2030;
- Class B1 5.975% Term Advance for £350,000,000 due 2025;
- Class B2 6.023% Term Advance for £350,000,000 due 2030; and
- Class C1 6.479% Term Advance for £200,000,000 due 2032.

On 15 September 2006, the Company borrowed a further £655m from Mitchells & Butlers Finance plc in the following four tranches:

- Class A4 floating rate Term Advance for £170,000,000 due 2030;
- Class AB floating rate Term Advance for £325,000,000 due 2033;
- Class C2 floating rate Term Advance for £50,000,000 due 2034; and
- Class D1 floating rate Term Advance for £110,000,000 due 2036.

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

Interest and margin is payable 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%

14. TERM ADVANCES WITH MITCHELLS & BUTLERS FINANCE PLC (CONTINUED)

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 rate payable including the margin as follows:

- A1N 5.6405%;
- A3N 5.7245%;
- A4 5.3972%;
- AB 5.3092%;
- C2 6.4782%; and
- D1 6.6932%.

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

	26 September 2015 £m	*27 September 2014 £m*
Principal outstanding at start of period	**2,071**	2,129
Principal repaid during the period	**(61)**	(58)
Principal outstanding at end of period	**2,010**	2,071
Deferred issue costs	**(8)**	(8)
Accrued interest	**4**	4
Carrying value at the end of the period	**2,006**	2,067

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

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 26 September 2015, the Company had cash and cash equivalents of £108m (2014 £78m) which were governed by the covenants associated with the securitisation. Of these amounts £36m (2014 £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.

Under the terms of the Agreement, the termination in whole or in part of the intra group supply agreement and/or a management services agreement, both put in place pursuant to the Securitisation, between the Company and the Group companies outside of the Securitisation will be events of default if such termination would be reasonably expected to have a material adverse effect on the securitised group.

The occurrence of any of the events of default will cause the outstanding borrowings to become immediately due and payable.

15. PROVISIONS FOR LIABILITIES AND CHARGES

	26 September 2015 £m	*27 September 2014 £m*
Deferred tax	47	48
Property provisions	4	6
	51	54

Deferred tax

	26 September 2015 £m	*27 September 2014 £m*
At start of period	48	50
Profit and loss account: current period	(1)	(2)
At end of period	47	48
Analysed as tax on timing differences related to:		
Fixed assets	45	45
Deferred gains	2	3
	47	48

No provision has been made for deferred tax on the sale of properties at their revalued amounts or where gains have been or are expected to be deferred against expenditure on replacement assets for an indefinite period until the sale of the replacement assets. The total amount unprovided is estimated at £252m (2014 £256m). It is not anticipated that any such tax will be payable in the foreseeable future.

Property lease provision

	26 September 2015 £m	*27 September 2014 £m*
At start of the period	6	5
Released in the period	(2)	-
Provided in the period	2	3
Utilised in the period	(2)	(2)
At end of the period	4	6

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 an estimated period of future losses of up to five years. Other contractual dilapidations costs are also recorded as provisions as appropriate, over a period of five years prior to lease expiry.

16. SHARE CAPITAL

	26 September 2015 £m	*27 September 2014 £m*
Allotted, called up and fully paid		
3,882,000 ordinary shares of £1 each	4	4

17. RECONCILIATION OF MOVEMENT IN RESERVES AND SHAREHOLDERS' FUNDS

	Share capital £m	*Share premium £m*	*Revaluation reserve £m*	*Profit & loss account £m*	*Total £m*
At 28 September 2013	4	1,561	1,186	227	2,978
Unrealised surplus on revaluation of the property portfolio	-	-	54	-	54
Profit	-	-	-	78	78
Dividends	-	-	-	(73)	(73)
Disposal of properties			(2)	2	-
At 27 September 2014	4	1,561	1,238	234	3,037
Unrealised surplus on revaluation of the property portfolio	-	-	9	-	9
Profit	-	-	-	105	105
Dividends	-	-	-	(35)	(35)
At 26 September 2015	4	1,561	1,247	304	3,116

The Company's ability to distribute its profit and loss account reserve by way of dividend is restricted by the securitisation covenants as set out in note 14.

18. FINANCIAL COMMITMENTS

Operating lease commitments

The Company has annual rental commitments under property operating leases which expire as follows:

	26 September 2015 £m	*27 September 2014 £m*
Within one year	-	-
Between one and five years	2	2
After five years	17	17
	19	19

Capital commitments

	26 September 2015 £m	*27 September 2014 £m*
Future capital expenditure contracted for, but not provided for	11	14

19. RELATED PARTY DISCLOSURE

As a wholly owned subsidiary of Mitchells & Butlers plc, the Company has taken advantage of the exemption under FRS 8 Related Party Disclosures not to disclose details of related party transactions or balances with entities which form part of the Group.

20. 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.

The Company has entered into swap arrangements with Mitchells & Butlers Finance plc which convert underlying borrowings with an effective principal, after amortisation, of £1,017m (2014 £1,037m) from floating rate interest payable to fixed rate interest payable. At the period end these had a fair value of £296m (2014 £240m).

21. ULTIMATE PARENT UNDERTAKING

Mitchells & Butlers plc is the ultimate parent undertaking and controlling party of the Company. The immediate parent undertaking of the Company is Mitchells & Butlers Retail Holdings Limited. The only group in which the Company is consolidated is that headed by Mitchells & Butlers plc. Copies of the Group consolidated financial statements of Mitchells & Butlers plc are available from the Company Secretary, Mitchells & Butlers plc, 27 Fleet Street, Birmingham, B3 1JP.

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