Registration number: 00024542

Mitchells & Butlers Retail Limited

Annual Report and Financial Statements

for the 52 weeks ended 28 September 2019

Mitchells & Butlers Retail Limited

Strategic Report for the 52 weeks ended 28 September 2019

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 address of the Company's registered office is shown in note 23.

The Directors present their Strategic Report for the 52 weeks ended 28 September 2019. The comparative period is for the 52 weeks ended 29 September 2018.

Business Model

Fair review of the business
The Company is a UK operator of pubs and restaurants with an estate of 1,279 managed outlets and 57 leased outlets at 28 September 2019 (2018 1,290 managed outlets and 52 leased outlets).

Revenue for the period was £1,674m (2018 £1,625m) with profit for the period before taxation of £161m (2018 £112m). Taxation charged against the profit for the period was £23m (2018 £16m) leaving a profit after tax of £138m (2018 £96m). The Company was in a net asset position of £3,182m (2018 £3,058m) at the period end.

The work we have undertaken, principally through our Ignite programme of initiatives, is driving a strong trading performance and generating profit growth whilst we continue to invest in our estate and pay down debt.

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 drive an innovation agenda. Our continued progress across each of these priorities has been instrumental in the strong performance during the year.

Market supply
The eating out industry continues to face challenges, including rising costs and supply which has, over recent years, outstripped demand. The result of these factors has been a number of CVAs and business closures amongst our competitors, and in the twelve months to June the number of restaurants in operation fell by 3.4%.

However, the industry as a whole remains in revenue growth; forecast to be 1.3% in 2019. This suggests that, despite reported fragile consumer confidence, people ultimately still want to go out and treat themselves to social occasions.

There are a number of key trends impacting the industry. Consumers are increasingly seeking higher quality food when eating out, with a focus on superior ingredients and sourcing. These factors have resulted in the continuing trend of increased spend per visit and a number of brands have premiumised their food offers and amenity in response to this changing consumer behaviour. Premiumisation is also supported by consumers' increasing desire for healthy options, with 43% of the population stating a desire to eat and drink more healthily than they were five years ago. To consumers of this mindset, high quality ingredients, healthy cooking methods and nutritionally beneficial meals command a higher price point and therefore there has been a growing proportion of offers targeting this trend.

The UK political and economic environment remains uncertain. The impact of Brexit remains unclear, aside from macro-economic consequences, the specific areas of material impact for our business are likely to be increases in costs and reduction of availability of goods, and implications of restrictions on the free movement of labour. On exit of the EU, cost of goods might be impacted by changes in terms of trade and therefore tariffs, additional border controls and fluctuations in the value of sterling. From an employment perspective, at a time when unemployment levels are at a 40-year low, any restriction on the free movement of labour would be expected to have a material impact on both the cost of labour and access to talent. Currently, across our business, 13% of staff are non-British EU nationals, with the proportion fluctuating by geographic region. We remain close to these issues and have contingency plans in place whilst we await further details.

Building a more balanced business
Our focus in this area is to optimise the balance of brands across the estate in order to create long-term value. During the year, we have continued to improve the quality of the estate through premiumisation and amenity upgrades.

We completed 204 remodels and conversions in the year and remain on course to deliver a 6-7-year cycle of investment, from the 11-12 year cycle of previous years. This year we have been focusing on enhancing the 'in year' return of our investment projects and have eliminated profit drag by reducing closure time, more efficient use of resources and setting businesses up for success from the first day of trading.

Business Model (continued)

Building a more balanced business (continued)
Our remodel programme has continued to provide profitable returns and is designed to enhance the amenity and environment of sites which remain within the same brand, giving the opportunity both to delight existing, and attract new guests. The remodel programme provides a vehicle through which brands can continue to evolve and innovate in the highly competitive market in which we operate.

We have been considering the environmental impact of our investment programme and in doing so have, where possible, refurbished existing kitchen equipment and furnishings to be used in new projects.

Instilling a more commercial culture
Instilling a commercial mindset across the business has been instrumental in driving the turnaround in trading performance over the past two years. In our sites, managers have been equipped with the knowledge to confidently grow sales in their local markets and have been provided with systems which assist them in running their businesses more efficiently.

Our enhanced labour deployment systems, in combination with a specialist team of system experts, continues to deliver improved efficiencies. The system generates accurate deployment schedules, individual to the trading patterns of a specific business, enabling the manager to deploy staff in the most efficient way. Our team of experts help managers to get the most out of the system and to optimise the labour deployment in their business.

Drive an innovation agenda
An innovation mindset continues to be a priority for our business. Innovation takes place at all levels of the business from single product and process development to our organisation-wide digital strategy. Our digital strategy represents an opportunity to unlock value by facilitating agile integration with new technology. As consumer behaviour evolves, we are more able to provide flexible solutions to accommodate changing needs. Technology and the resulting data also provide us with the insight to better understand the requirements of our guests and how we can fulfil those requirements and offer even better experiences.

During the year we have developed our technology to facilitate an improved online booking experience, have developed an employee app allowing our staff greater flexibility in rostering and have continued to work with Just Eat and Deliveroo to expand our delivery offer.

We are increasingly supporting innovative companies finding sustainable solutions for our industry. For example, we have trialled Too Good to Go in Toby Carvery, with the ambition of redistributing food which would otherwise go to waste.

Ignite
Ignite is the internal name used for our focused programme of work underpinning the longer-term strategy. The Ignite initiatives have been instrumental in driving the turnaround in trading performance and profitability and have continued at pace in the year. Ignite 2 initiatives are in place to continue to deliver benefits in the current financial year and our next stage, Ignite 3, will be developed during the coming year.

One example of an Ignite 2 initiative which has been rolled out in the year is an enhancement to our booking platforms which reduces the number of steps a guest needs to take to book a table. Booking conversions have increased as a result of this more seamless experience.

Our centralised pricing process allows us to identify pricing opportunities and move quickly to realise them. Our till software enables centralised changes to be activated in line with changes to local market dynamics.

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 2019 of Mitchells & Butlers plc and include staff turnover, net promoter score, same outlet like-for-like sales growth, incremental return on expansionary capital and adjusted operating profit.

Further explanation of the performance and reasons for the movements can be found in the Annual Report and Accounts 2019 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 2019 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:

- **Market risks**

Declining sales
There is a risk that concerns around consumer confidence, increased personal debt levels, squeezes on disposable income and rising inflation individually, together or in combinations, may adversely affect our market share and profitability, resulting in declining sales.

To mitigate this risk, the Group ensures the right team and structure is in place within each outlet to optimise the guest experience. In addition, daily, weekly and periodic sales reporting and monitoring is in place to enable a timely response to any decline in sales. There is also an increased focus on digital marketing activity, increased activity from takeaway and delivery offerings in order to drive sales forwards. Sales training has also been made available for all Retail Management employees.

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. The Group aims to reduce guest complaints by improving the local management of social media responses (e.g. TripAdvisor responses). 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. 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.

There are a large number of EU workers within the Group, particularly in London and the South East. Therefore, the overall risk is increasing as the UK approaches a decision point on its exit from the EU. Any restriction on the free movement of labour would have a material impact on both the cost of labour and access to talent.

The apprenticeship programme will assist in mitigating against the increasing risk in relation to EU workers and a new talent management system has been sourced to further assist with talent planning and retention of employees.

Principal risks and uncertainties (continued)

- **Operational risks (continued)**

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.

Information security and disaster recovery
There is a risk that inadequate disaster recovery plans and information security processes are in place to mitigate against a system outage, or failure to ensure appropriate back-up facilities (covering key business systems and the recovery of critical data) and loss of sensitive data. In addition, there are also increasing risks of cyber-attacks and non-compliance with GDPR.

In FY 2019 a further review of cyber security was performed in order to highlight any gaps and address any challenges. As a result, a number of further improvements have been made to address audit actions. In order to mitigate these risks, the Group has a number of controls in place including; a cross-functional Information Security Steering Group; Group Assurance IT controls reviews; regular revision of appropriate cyber security governance policies and procedures; and systems controls to ensure GDPR compliance.

Health and lifestyle concerns
There is an increasing level of focus from media and government on health and obesity issues, predominantly impacting the UK. This increased focus has increased consumer awareness of the health implications of their eating and drinking choices and it is important that we evolve our offers to respond to this change and allow consumers to make informed decisions. Failure to meet these expectations could have both a financial and reputational impact on the business.

We monitor changing behaviour in relation to health and lifestyle issues and adapt our brands to appeal to changing needs, ensuring that the brands remain relevant and competitive.

As part of our commitment to the health of our guests, we have set targets for ongoing sugar and salt reduction in the meals we serve and we have a plan in place to provide nutritional information for all of our brands to allow customers to make informed decisions.

Brexit
With c30% of food spend sourced from EU countries, should the UK continue on it's path to exit from the EU, the risk of higher food costs will increase. In addition, there is an increasing risk to the sourcing of certain products given the expected delays at ports following any exit from the EU. Cost of goods may be impacted by changes in terms of trade and tariffs, additional border controls and fluctuations in the value of sterling.

Brexit risks have been considered in detail during FY 2019 and mitigating plans continue to be reviewed and developed, such as buying ahead to mitigate the risk of a lack of availability of products should the UK exit from the EU.

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.

In addition, allergens are becoming an increased risk within the industry. As such, a robust response has been taken to manage allergens and the associated data within the menu cycle, coupled with a continuous review in place to ensure controls remain appropriate to maintain guest safety.

Principal risks and uncertainties (continued)

- **Operational risks (continued)**

Wage Cost Inflation
There is a risk that increased costs associated with further increases to National Living Wage may adversely impact overall operational costs.

The Group continues to review the risks associated with complying with National Living Wage. Reviews are undertaken at a strategic level and seek 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.

We have also successfully implemented a new Time and Attendance system to improve the management controls and reporting of staff hours which will assist in rostering and monitoring of the level of staff costs in each outlet.

- **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 profits; or
ii. A material change in the valuation of the property portfolio.

The overall risk has increased in the year due to increased trading and cost pressures which could essentially drive reduced headroom.

The Group maintains headroom against these risks. The finance team conducts daily cash forecasting with periodic reviews at the Treasury Committee, the role of which includes 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.

• Drive an innovation agenda, 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 19 November 2019 and signed on its behalf by:

AW Vaughan

A W Vaughan
Director

Mitchells & Butlers Retail Limited

Directors' Report for the 52 weeks ended 28 September 2019

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 28 September 2019. The comparative period is for the 52 weeks ended 29 September 2018.

Details of future developments can be found in the Strategic Report on page 6.

Dividends
Dividends paid during the period are disclosed in note 21. The Directors are proposing a final dividend of £nil (2018 £nil).

Financial risk and treasury management
Details of the Company's policy on addressing risks and details about financial instruments are given in note 16. 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 £1,698m (2018 £1,785m) 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

Directors' indemnity
Throughout the period to which these financial statements refer, the Directors had the benefit of a Directors' and officers' liability insurance policy, the premium for which was paid by the Company's ultimate parent company, Mitchells & Butlers plc.

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. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

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.

Details of the financial and economic factors affecting the performance of the Company are shared with all employees at the appropriate time using the methods listed above.

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 19 November 2019 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; 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 of Mitchells & Butlers Retail Limited (the 'Company'):
- give a true and fair view of the state of the Company's affairs as at 28 September 2019 and of its profit for the 52 weeks then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:
- the Income Statement;
- the Statement of Comprehensive Income;
- the Balance sheet;
- the Statement of Changes in Equity; and
- the related notes 1 to 23.

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

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

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

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.

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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

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

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

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

We have nothing to report in respect of these matters.

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

LL Clamp

Louise Clamp FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
19 November 2019

Mitchells & Butlers Retail Limited
Income statement for the 52 weeks ended 28 September 2019

	Note	52 weeks ended 28 September 2019 £m	52 weeks ended 29 September 2018 £m
Revenue	2	**1,674**	1,625
Operating costs	3	**(1,397)**	(1,365)
Separately disclosed items	4	**(4)**	(32)
OPERATING PROFIT		**273**	228
Finance revenue	6	**1**	1
Finance costs	7	**(113)**	(117)
PROFIT BEFORE TAXATION		**161**	112
Tax expense	8	**(23)**	(16)
PROFIT FOR THE PERIOD		**138**	96

The above results are derived from continuing operations.

The notes on pages 16 to 40 form an integral part of these financial statements.

Mitchells & Butlers Retail Limited
Statement of Comprehensive Income
for the 52 weeks ended 28 September 2019

	Note	52 weeks ended 28 September 2019 £m	52 weeks ended 29 September 2018 £m
PROFIT FOR THE PERIOD		138	96
Items that will not be reclassified subsequently to profit and loss:			
Unrealised gain/(loss) on revaluation of the property portfolio	9	71	(10)
Tax relating to items not reclassified	8	(12)	3
		59	(7)
Items that may be reclassified subsequently to profit and loss:			
Cash flow hedges:			
(Losses)/gains arising during the period	16	(94)	6
Reclassification adjustments for items included in profit or loss	16	37	42
Tax relating to items that may be reclassified	8	9	(8)
		(48)	40
OTHER COMPREHENSIVE INCOME AFTER TAX		11	33
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		149	129

The notes on pages 16 to 40 form an integral part of these financial statements.

Mitchells & Butlers Retail Limited

(Registration number: 00024542)

Balance sheet as at 28 September 2019

	Note	28 September 2019 £m	29 September 2018 £m
NON-CURRENT ASSETS			
Property, plant and equipment	9	3,881	3,788
Investments in subsidiaries	11	21	21
Deferred tax asset	18	19	9
Lease premiums		1	1
TOTAL NON-CURRENT ASSETS		3,922	3,819
CURRENT ASSETS			
Inventories	12	20	20
Trade and other receivables	13	1,671	1,666
Cash and cash equivalents		61	54
TOTAL CURRENT ASSETS		1,752	1,740
TOTAL ASSETS		5,674	5,559
CURRENT LIABILITIES			
Trade and other payables	14	(224)	(219)
Corporation tax liability		(11)	(8)
Borrowings	15	(95)	(86)
Derivative financial instruments	16	(36)	(37)
TOTAL CURRENT LIABILITIES		(366)	(350)
NET CURRENT ASSETS		1,386	1,390
TOTAL ASSETS LESS CURRENT LIABILITIES		5,308	5,209
NON-CURRENT LIABILITIES			
Borrowings	15	(1,602)	(1,697)
Derivative financial instruments	16	(265)	(206)
Deferred tax liabilities	18	(252)	(240)
Provisions	19	(7)	(8)
TOTAL NON-CURRENT LIABILITIES		(2,126)	(2,151)
TOTAL LIABILITIES		(2,492)	(2,501)
NET ASSETS		3,182	3,058
EQUITY			
Share capital	20	4	4
Hedging reserve	20	(250)	(202)
Revaluation reserve	20	1,115	1,057
Retained earnings	20	2,313	2,199
TOTAL EQUITY		3,182	3,058

Approved by the Board and authorised for issue on 19 November 2019. They were signed on its behalf by:

A W Vaughan
Director

The notes on pages 16 to 40 form an integral part of these financial statements.

Mitchells & Butlers Retail Limited

Statement of Changes in Equity for the 52 weeks ended 28 September 2019

	Share capital £m	Revaluation reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
At 30 September 2017	**4**	**1,065**	**(242)**	**2,157**	**2,984**
Profit for the period	-	-	-	96	96
Other comprehensive (expense)/income	-	(8)	40	1	33
Total comprehensive (expense)/income	-	(8)	40	97	129
Dividends	-	-	-	(55)	(55)
At 29 September 2018	**4**	**1,057**	**(202)**	**2,199**	**3,058**
Profit for the period	-	-	-	138	138
Other comprehensive income/(expense)	-	59	(48)	-	11
Total comprehensive income/(expense)	-	59	(48)	138	149
Transfer on disposal	-	(1)	-	1	-
Dividends	-	-	-	(25)	(25)
At 28 September 2019	**4**	**1,115**	**(250)**	**2,313**	**3,182**

The notes on pages 16 to 40 form an integral part of these financial statements.

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 52 weeks ended 28 September 2019

1. **Accounting policies**

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

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

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to IFRS 2 share-based payments, requirements of IFRS 7 Financial Instruments: Disclosures, disclosure requirements of IFRS 13 Fair Value Measurement, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, IAS 36 Impairment of Assets and IAS 24 Related Party Disclosures. Where relevant, equivalent disclosures have been given in the Annual Report and Accounts 2019 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 28 September 2019 and the comparative period ended 29 September 2018 both include 52 trading weeks.

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

Going concern
The 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 9 – Property, plant and equipment
Note 19 – Provisions

Key sources of estimation uncertainty are described in:

Note 9 – Property, plant and equipment

1. Accounting policies (continued)

Adoption of new and revised Standards
The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and interpretations which have been adopted by the Company in these financial statements for the first time with no material impact:

Impact of initial application of IFRS 9 Financial Instruments

(a) Classification and measurement of financial instruments
The Directors of the Company reviewed and assessed the Company's existing financial instruments as at 30 September 2018, based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had no impact on the Company's financial instruments as regards their classification and measurement. Details on the expected credit loss and impact on loss allowances are provided in (b) below.

(b) Impairment of financial assets
In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

In particular, IFRS 9 requires the Company to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Company is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also provides a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables in certain circumstances, which the Company have adopted.

The Company has trade receivables, other receivables and amounts owed by subsidiary undertakings (see note 13). The Directors have reviewed these balances and calculated that there is no expected credit loss on any of the individual balances at 30 September 2018. As such there has been no impact on the financial statements and therefore no prior year restatement required.

(c) General hedge accounting
The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required. Enhanced disclosure requirements about the Company's risk management activities have also been introduced.

In accordance with IFRS 9's transition provisions for hedge accounting, the Company has applied the IFRS 9 hedge accounting requirements prospectively from the date of initial application on 30 September 2018. The Company's qualifying hedging relationships in place as at this date also qualify for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. No rebalancing of any of the hedging relationships was necessary on initial application. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships meet IFRS 9's effectiveness assessment requirements. The Company has not designated any hedging relationships under IFRS 9 that would not have met the qualifying hedge accounting criteria under IAS 39.

IFRS 9 requires hedging gains and losses to be recognised as an adjustment to the initial carrying amount of non-financial hedged items (basis adjustment). IFRS 9 clarifies that transfers from the hedging reserve to the initial carrying amount of the hedged item are not reclassification adjustments under IAS 1 Presentation of Financial Statements and hence they do not affect other comprehensive income. Hedging gains and losses subject to basis adjustments are categorised as amounts that will not be subsequently reclassified to profit or loss in other comprehensive income. This is consistent with the Company's practice prior to the adoption of IFRS 9.

The application of the IFRS 9 hedge accounting requirements has had no impact on the results and financial position of the Company for the current and/or prior years. Please refer to note 16 for detailed disclosures regarding the Company's risk management activities.

Overall IFRS 9 impact
The application of IFRS 9 has had no impact on the balance sheet, the income statement or the statement of comprehensive income.

1. Accounting policies (continued)

IFRS 15 Revenue from Contracts with Customers
In the current period, the Company has adopted IFRS 15 which is effective for financial periods beginning on or after 1 January 2018. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a five-step approach to revenue recognition:

Step 1: Identify the contract with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when the entity satisfies a performance obligation

As the majority of the Company's revenue is in relation to the sale of food and drink within pubs and restaurants, for which the consideration is known and the performance obligations are satisfied at the point of sale, the application of IFRS 15 has had no impact on the financial position or performance of the Company.

Revenue recognition
Revenue is measured based on the consideration to which the Company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognises revenue when it transfers control of a product or service to a customer.

Revenue – food and drink
The majority of revenue comprises food and drink sold in the Company's outlets. Revenue is recognised when control of the goods has transferred, being at the point the customer purchases the goods at the outlet. Payment of the transaction price is due immediately at the point the customer makes a purchase. Revenue excludes sales-based taxes, coupons and discounts.

Revenue – services
Revenue for services mainly represents income from gaming machines, hotel accommodation and rent receivable from unlicensed and leased operations. Revenue for gaming machines and hotel accommodation is recognised at the point the service is provided and excludes sales-based taxes and discounts.

Separately disclosed items
In addition to presenting information on an IFRS basis, the Company also presents adjusted profit information that excludes separately disclosed items. Adjusted profitability measures are presented excluding separately disclosed items as we believe this provides management with useful additional information about the Company's performance and supports a more effective comparison of the Company's trading performance from one period to the next.

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, and profit or loss on property disposals.

Finance costs
Finance costs are allocated over the term of the debt using the effective interest method. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating finance charges over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) over the expected life of the debt instrument, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Finance Revenue
Finance revenue is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Finance revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

1. Accounting policies (continued)

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 or the unexpired term of the lease.

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

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

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

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

Revaluation
The revaluation utilises valuation multiples, which are determined via third-party inspection of 20% of the sites such that all sites are individually valued approximately every five years; 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, FMT is taken as the post investment forecast, 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 management and the third-party valuer.

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.

Surpluses which arise from the revaluation exercise are included within other comprehensive income (in the revaluation reserve) unless they are reversing a revaluation deficit 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 the income statement. 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).

1. Accounting policies (continued)

Property, plant and equipment (continued)

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 in the income statement 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.

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 receivables, other receivables and amounts owed by group undertakings are initially recognised at fair value. Items are subsequently carried at amortised cost less an allowance for any lifetime expected credit losses.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Trade payables
Trade and other payables are initially recognised at fair value and subsequently recognised at amortised cost.

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

Deferred tax
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

1. Accounting policies (continued)

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 lease commitments (including rental costs and service charge) or the operating loss after rental costs and service charge. The provision is calculated on a site by site basis with a provision being made for the remaining committed 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 lease premiums, 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 income statement 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.

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.

1. Accounting policies (continued)

Share based payments (continued)
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
Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

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

Debt instruments that meet the following conditions are measured subsequently at amortised cost:
• the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
• the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):
• the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
• the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The Company recognises a loss allowance for expected credit losses on financial assets where applicable. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial asset.

The Company adopts the simplified approach detailed in IFRS 9 and therefore recognises lifetime ECL for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial assets, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Definition of default
The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets are generally not recoverable when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company).

Credit-impaired financial assets
A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:
(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event;

1. **Accounting policies (continued)**

Financial instruments (continued)

Credit-impaired financial assets (continued)
(c) the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(e) the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy
The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses
The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

If the Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Company recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets
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 does not retain substantially all the risks and rewards of ownership but continues to control a 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.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial Liabilities
The Company has financial liabilities relating to borrowings, for which the accounting policy is provided on page 20. Other financial liabilities are initially measured at fair value, net of transaction costs.

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

Derecognition of financial liabilities
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.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating finance charges over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) over the expected life of the debt instrument, or where appropriate, a shorter period, to the amortised cost of a financial liability. Finance charges are recognised on an effective interest basis for all debt instruments.

1. Accounting policies (continued)

Financial instruments (continued)

Derivative financial instruments
The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including interest rate and currency swaps.

Derivative financial instruments are initially measured at fair value on the contract date and are remeasured to fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Company has both the current legal right to offset and the intention to settle on a net basis or realise simultaneously. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Hedge accounting
The Company designates its derivative financial instruments i.e. interest rate and currency swaps, as cash flow hedges.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:
• there is an economic relationship between the hedged item and the hedging instrument;
• the effect of credit risk does not dominate the value changes that result from that economic relationship; and
• the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Company adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Company expects that some or all of the loss accumulated in the hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

Hedge accounting is discontinued only when the hedging relationship ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold or terminated. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in the hedging reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in the hedging reserve is reclassified immediately to profit or loss.

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 2019.

Revenue is analysed as follows:

	52 weeks ended 28 September 2019 £m	52 weeks ended 29 September 2018 £m
Food	**818**	795
Drink	**797**	776
Services	**59**	54
Total revenue	**1,674**	1,625

Revenue from services includes rent receivable of £8m (2018 £7m) from leased operations.

3. Operating costs

Operating costs are analysed as follows:	Note	52 weeks ended 28 September 2019 £m	52 weeks ended 29 September 2018 £m
Raw materials and consumables recognised as an expense		**425**	424
Changes in inventories of finished goods	12	**-**	(2)
Employee costs	5	**470**	450
Hire of plant & machinery		**17**	16
Operating lease expense - property		**24**	25
Other costs		**289**	278
Intercompany costs[a]		**81**	81
Depreciation expense	9	**91**	92
Amortisation expense		**-**	1
Total operating costs		**1,397**	1,365

a. Intercompany costs represent the management service charge payable to Mitchells & Butlers Leisure Retail Limited.

Fees paid to Deloitte LLP for the audit of the Company's accounts were £0.17m (2018 £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 2019 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 Company. 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 and volatility of the movement in property valuation each period, which can be partly driven by movements in the property market. This movement is also not considered to be part of the adjusted trade performance of the Company and would prevent year on year comparability of the Company's trading performance if not separately disclosed.

4. Separately disclosed items (continued)

The items identified are as follows:

	Note	52 weeks ended 28 September 2019 £m	52 weeks ended 29 September 2018 £m
Profit on property disposals		-	(2)
Movement in the valuation of the property portfolio:			
Impairment arising from the revaluation[a]	9	2	27
Impairment of short leasehold and unlicensed properties[b]	9	2	7
Net movement in the valuation of the property portfolio		4	34
Total adjusted items		4	32

a. Impairment arising from the Company's revaluation of its freehold and long leasehold pub estate where the carrying values of the properties exceed their recoverable amount, net of a revaluation surplus that reverses past impairments.
b. Impairment of short leasehold and unlicensed properties where their carrying values exceed their recoverable amount, net of an impairment reversal where carrying values have been increased to the recoverable amounts.

5. Employee costs

	52 weeks ended 28 September 2019 £m	52 weeks ended 29 September 2018 £m
Wages and salaries	436	419
Social security costs	27	26
Pension costs, defined contribution scheme	6	4
Share-based payments[a]	1	1
Total employee costs	470	450

a. 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 2019.

Average number of employees
The average number of persons employed by the Company during the period, including part time employees, was 32,580 (2018 32,280). All employees are retail employees.

Directors' remuneration
The four Directors (2018 four) who served during the period were all employed by another Group company (Mitchells & Butlers Leisure Retail Limited) and are also Directors of other subsidiary companies of the Mitchells & Butlers plc Group. The Directors received total remuneration of £1.5m (2018 £1.2m) 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 (2018 four) of the Directors were members of the Group's defined contribution scheme, with one (2018 one) Directors also holding accrued service within the Group's defined benefit scheme. During the period four (2018 three) of the Directors were granted share options in the 'PRSP' (Performance Restricted Share Plan) scheme. Details of this scheme are disclosed in the Mitchells & Butlers plc Annual Report Accounts 2019.

The highest paid Director received emoluments of £0.6m (2018 £0.4m), with Company contributions to defined contribution pension schemes of £nil (2018 £nil). This Director also received share options in the PRSP scheme in the period.

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.

5. Employee costs

Pensions (continued)
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 28 September 2019, the Mitchells & Butlers plc Group paid £11m (2018 £8m) 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 28 September 2019 was £6m (2018 £4m).

Defined benefit scheme
The defined benefit section of the plan is now closed to future service accrual. The defined benefit liability relates to the MABPP and MABEPP 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
Mitchells & Butlers plc has accounted for pensions in accordance with IAS 19 Employee Benefits (revised). The valuations used by Mitchells & Butlers plc for IAS 19 (revised) purposes are based on the results of the latest full actuarial valuation carried out at 31 March 2019 and updated by the schemes' qualified actuaries to 28 September 2019. Scheme assets are stated at market value at 28 September 2019 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 2019.

Minimum funding requirements
The results of the 2019 actuarial valuation showed a funding deficit of £293m, using a more prudent basis to discount the scheme liabilities than is required by IAS 19 (revised). As a result of the 2019 actuarial valuation, Mitchells & Butlers plc 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. The 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 (revised) deficit calculated on this basis, and recognised in the Mitchells & Butlers plc Annual Report and Accounts 2019, is £215m (2018 £249m).

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

6. Finance revenue

	52 weeks ended 28 September 2019 £m	52 weeks ended 29 September 2018 £m
Finance revenue intercompany	1	1

7. Finance costs

	52 weeks ended 28 September 2019 £m	52 weeks ended 29 September 2018 £m
Intercompany interest on Term Advances	109	114
Liquidity facility fees reimbursed to Mitchells & Butlers Finance plc	4	3
Total finance costs	113	117

8. Taxation

	52 weeks ended 28 September 2019 £m	52 weeks ended 29 September 2018 £m
Taxation – income statement		
Current taxation		
UK corporation tax	30	26
Amounts over provided in prior periods	(4)	(3)
Group relief received for nil payment	(2)	-
	24	23
Deferred taxation		
Origination and reversal of temporary differences	(2)	(7)
Adjustments in respect of prior periods	1	-
	(1)	(7)
Total tax charged in the income statement	23	16

The standard rate of corporation tax applied to the reported profit is 19.0% (2018 19.0%).

The tax in the income statement for the period is lower (2018 lower) than the standard rate of corporation tax in the UK.

The differences are reconciled below:

	52 weeks ended 28 September 2019 £m	52 weeks ended 29 September 2018 £m
Profit before tax	161	112
Taxation charge at the UK standard rate of corporation tax of 19.0% (2018 19.0%)	31	21
Expenses not deductible	1	-
Adjustments in respect of prior periods	(3)	(3)
Income not taxable	(4)	(3)
Group relief received	(2)	-
Effect of different tax rates for deferred tax and corporation tax	-	1
Total tax charge	23	16
Further analysed as tax relating to:		
Profit before tax and adjusted items	24	23
Adjusted items	(1)	(7)
	23	16

8. Taxation (continued)

Factors which may affect future tax charges
The Finance Act 2016 was substantively enacted on 15 September 2016 and reduced the main rate of corporation tax from 19% to 17% from 1 April 2020. The effect of these changes has been reflected in the closing deferred tax balances at 29 September 2018 and 28 September 2019.

	52 weeks ended 28 September 2019 £m	52 weeks ended 29 September 2018 £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	12	(2)
Unrealised gains due to revaluations - retained earnings	-	(1)
	12	(3)
Items that may be reclassified subsequently to profit or loss:		
Cash flow hedges	(9)	8
Total tax expense recognised in other comprehensive income	3	5

9. 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 sites have been impacted by expansionary capital investment in the preceding 12 months, management judgement is used to determine the most appropriate FMT. The FMT is taken as the post investment forecast, as the current year trading performance includes a period of closure.

Key sources of estimation uncertainty
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 30. The carrying value of properties to which these estimates apply is £3,779m (2018 £3,684m).

	Land & buildings £m	Fixtures, fittings & equipment £m	Total £m
Cost or valuation			
At 29 September 2018	3,415	897	4,312
Additions	28	90	118
Disposals[a]	(3)	(144)	(147)
Revaluation	67	-	67
At 28 September 2019	**3,507**	**843**	**4,350**
Depreciation			
At 29 September 2018	57	467	524
Provided in the period	4	87	91
Disposals[a]	(2)	(144)	(146)
At 28 September 2019	**59**	**410**	**469**
Carrying amount			
At 28 September 2019	**3,448**	**433**	**3,881**
At 29 September 2018	3,358	430	3,788

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

9. Property, plant and equipment (continued)

All of the Company's property, plant and equipment pledged as security for the securitisation debt and over which there are certain restrictions on title.

Revaluation of freehold and long leasehold properties
The freehold and long leasehold properties have been valued at fair value, as at 28 September 2019 using information provided by CBRE, independent chartered surveyors. The valuation was carried out in accordance with the RICS Valuation – Global Standards 2017 which incorporate the International Valuation Standards and the RICS Valuation – Professional Standards UK January 2014 (revised April 2015) (the 'Red Book') assuming each asset is sold as fully operational trading entity. The fair 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. The average movement in FMT of revalued properties in the past three years is 1.1%. It is estimated that, given the multiplier effect, a 1.1% change in the FMT of the freehold or long leasehold properties would generate an approximate £32m movement in their valuation.

Multiples are determined at an individual brand level. Over the last three years, the weighted average of all brand multiples has moved by an average of 0.1. It is estimated that a 0.1 change in the multiple, would generate an approximate £37m movement in valuation.

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

Impairment review of short leasehold and unlicensed properties
Short leasehold and unlicensed properties (comprising land and buildings and fixtures, fittings and equipment) which are not revalued to fair market value, are reviewed for impairment by comparing site value in use calculations to their carrying values. The value in use calculation uses forecast trading performance cash flows, which are discounted by applying a pre-tax discount rate of 7.7% (2018 7.5%). Any resulting impairment relates to sites with poor trading performance, where the output of the value in use calculation is insufficient to justify their current net book value.

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

	52 weeks ended 28 September 2019 £m	52 weeks ended 29 September 2018 £m
Income statement		
Revaluation deficit charged as an impairment	(60)	(73)
Reversal of past revaluation deficits	58	46
Total impairment arising from the revaluation	(2)	(27)
Impairment of short leasehold and unlicensed properties	(2)	(7)
	(4)	(34)
Revaluation reserve		
Unrealised revaluation surplus	169	148
Reversal of past revaluation surplus	(98)	(158)
	71	(10)
Net increase/(decrease) in property, plant and equipment	67	(44)

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 2019 of Mitchells and Butlers plc.

9. Property, plant and equipment (continued)

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

28 September 2019	Number of pubs	Net book value[a] £m
Freehold properties	1,128	3,505
Long leasehold properties	82	274
Total revalued properties	1,210	3,779
Short leasehold properties		83
Unlicensed properties		15
Assets under construction		4
Total property, plant and equipment		3,881

29 September 2018	Number of pubs	Net book value[a] £m
Freehold properties	1,129	3,418
Long leasehold properties	81	266
Total revalued properties	1,210	3,684
Short leasehold properties		85
Unlicensed properties		14
Assets under construction		5
Total property, plant and equipment		3,788

a. The carrying value of freehold and long leasehold properties based on their historical cost is £2,293m and £171m respectively (2018 £2,267m and £172m).

Assets in the course of construction
Cost at 28 September 2019 includes £4m (2018 £5m) of assets in the course of construction.

10. Commitments

Capital commitments
The total amount contracted for but not provided in the financial statements in relation to property, plant and equipment was £12m (2018 £14m).

11. Investments in subsidiaries

	£m
Cost	
At 28 September 2019 and 29 September 2018	32
Provision	
At 28 September 2019 and 29 September 2018	11
Carrying amount	
At 28 September 2019 and 29 September 2018	21

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 52 weeks ended 28 September 2019 (continued)

11. Investments in subsidiaries (continued)

Details of the subsidiaries as at 28 September 2019 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[a]	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[a]	England and Wales	Ordinary shares	100%	Dormant

a. indicates direct investment of the Company

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

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

12. Inventories

	28 September 2019 £m	29 September 2018 £m
Finished goods and goods for resale	**20**	20

13. Trade and other receivables

	28 September 2019 £m	29 September 2018 £m
Trade receivables	**3**	3
Amounts owed from group undertakings[a]	**1,645**	1,646
Prepayments	**21**	15
Other receivables	**2**	2
Total trade and other receivables	**1,671**	1,666

a. Includes an amount of £1,362m (2018 £1,362m) owed by the parent company, Mitchells and Butlers Retail Holdings Limited, £282m (2018 £282m) owed by the ultimate parent company, Mitchells & Butlers plc and £1m (2018 £2m) owed by other group undertakings. Amounts owed from fellow group undertakings are repayable on demand. Interest is not charged on all balances. Where interest is charged, it is charged at market rate, based on what can be achieved on corporate deposits.

The Directors consider that the carrying amount of trade receivables, amounts owed from group undertakings and other receivables approximately equates to their fair value. A lifetime ECL of £1m has been recognised against these balances.

Credit risk is described in note 16.

14. Trade and other payables

	28 September 2019 £m	29 September 2018 £m
Accrued expenses	**40**	43
Social security and other taxes	**46**	36
Other payables	**36**	30
Amounts owed to group undertakings[a]	**102**	110
Total trade and other payables	**224**	219

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

The Directors consider that the carrying amount of trade and other payables approximately equates to their fair value.

15. Borrowings

	28 September 2019 £m	29 September 2018 £m
Maturity profile		
Amounts falling due within one year	**95**	86
Amounts falling due after more than one year:		
Between one and two years	**104**	95
Between two and five years	**347**	328
After five years	**1,151**	1,274
	1,602	1,697
Total borrowings	**1,697**	1,783

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.

15. Borrowings (continued)

Term advances from Mitchells & Butlers Finance plc (continued)

At 28 September 2019 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 28 September 2019 £m	Principal outstanding at 29 September 2018 £m	Expected weighted average life[b] (years)
A1N	200	Floating	2011 to 2028	6.22[a]	121	131	5 years
A2	550	Fixed – 5.58%	2003 to 2028	6.02	220	240	5 years
A3N	250	Floating	2011 to 2028	6.30[a]	152	165	5 years
A4	170	Floating	2016 to 2028	5.98[a]	139	150	5 years
AB	325	Floating	2020 to 2032	6.29[a]	325	325	9 years
B1	350	Fixed – 5.98%	2003 to 2023	6.13	84	102	2 years
B2	350	Fixed – 6.02%	2015 to 2028	6.13	297	312	6 years
C1	200	Fixed – 6.48%	2029 to 2030	6.57	200	200	10 years
C2	50	Floating	2033 to 2034	6.48[a]	50	50	14 years
D1	110	Floating	2034 to 2036	6.69[a]	110	110	16 years
	2,555				1,698	1,785	

a. Effective interest on floating rate notes is stated after the effect of interest rate swaps.
b. 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 28 September 2019 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:

	28 September 2019 £m	29 September 2018 £m
Principal outstanding at start of period	1,785	1,867
Principal repaid during the period	(87)	(82)
Principal outstanding at end of period	1,698	1,785
Deferred issue costs	(5)	(5)
Accrued interest	4	3
Carrying value at end of period	1,697	1,783

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 28 September 2019, the Company had cash and cash equivalents of £61m (2018 £54m) which were governed by the covenants associated with the securitisation. Of these amounts £1m (2018 £1m), representing disposal proceeds, was held on deposit in an account over which there are a number of restrictions. The use of this cash requires the approval of the securitisation trustee and may only be used for certain specified purposes such as capital enhancement expenditure and business acquisitions.

16. 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.

Credit risk on trade receivables and other receivables is considered to be a low-level risk. Trade receivables and other receivables mainly represent amounts due from tenants of unlicensed properties, amounts due from Company suppliers and cash collateral deposits held by third parties.

Credit exposure relating to tenants is considered to be low risk, with an expected lifetime credit loss calculated at the period end to reflect the risk of irrecoverable amounts. To minimise credit risk new tenants are assessed using an external credit rating system before they are approved for tenancy. Credit exposure is reduced for the amounts due from Company suppliers as the Company holds offsetting amounts in trade and other payables that are due to some of these suppliers. Credit risk on cash collateral deposits held by third parties are considered to be low credit risk as they are held with reputable banking institutions by third parties.

Credit risk on amounts owed from group undertakings is considered to be low risk. Mitchells & Butlers plc, the ultimate parent company provides a guarantee to subsidiary undertakings to enable them to meet debts as they fall due. The Directors also perform an assessment of the amounts owed from group undertakings and recognise any expected credit loss, where applicable.

The Company's credit exposure as at 28 September 2019 was:

	12 month ECL 2019 £m	Lifetime ECL 2019 £m	Total 2019 £m	Total 2018 £m
Cash and cash equivalents	61	-	61	54
Trade receivables	-	3	3	3
Other receivables	-	2	2	2
Amounts owed by group undertakings	-	1,645	1,645	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.

16. Hedging Instruments (continued)

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 IFRS 9. 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.

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), based on the prevailing period end interest rates, 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
28 September 2019							
Term Advances	**(162)**	**(167)**	**(169)**	**(171)**	**(173)**	**(1,349)**	**(2,191)**
Interest rate swaps	**(36)**	**(34)**	**(32)**	**(29)**	**(27)**	**(139)**	**(297)**
Fixed rate: Term Advances	**(198)**	**(201)**	**(201)**	**(200)**	**(200)**	**(1,488)**	**(2,488)**
29 September 2018							
Term Advances	(158)	(163)	(167)	(169)	(171)	(1,522)	(2,350)
Interest rate swaps	(37)	(36)	(34)	(32)	(29)	(165)	(333)
Fixed rate: Term Advances	(195)	(199)	(201)	(201)	(200)	(1,687)	(2,683)

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 £897m (2018 £931m). These are designated as a hedge of the cash flow and principal interest rate risk of £897m (2018 £931m) 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 4.85% (2018 4.86%) 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:

	52 weeks ended 28 September 2019 £m	52 weeks ended 29 September 2018 £m
(Losses)/gains arising during period	**(94)**	6
Reclassification adjustments for losses included in profit or loss	**37**	42
Net movement in cash flow hedges recognised in equity	**(57)**	48

16. Hedging Instruments (continued)

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

	28 September 2019		29 September 2018	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Financial assets at amortised cost:				
- Cash	61	61	54	54
- Trade receivables	3	3	3	3
- Other receivables	2	2	2	2
- Amounts owed from group undertakings	1,645	1,645	1,646	1,646
Financial liabilities at amortised cost:				
- Borrowings	(1,697)	(1,697)	(1,783)	(1,783)
- Other taxation and social security	(46)	(46)	(36)	(36)
- Other payables	(36)	(36)	(30)	(30)
- Amounts owed to group undertakings	(102)	(102)	(110)	(110)
Financial liabilities – derivatives:				
- Intercompany interest rate swaps	(301)	(301)	(243)	(243)

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.

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
28 September 2019		
Intercompany interest rate swaps	(36)	(265)
29 September 2018		
Intercompany interest rate swaps	(37)	(206)

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.

17. 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.

17. Lease commitments (continued)

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:

	28 September 2019 £m	29 September 2018 £m
Due within one year	17	21
Between one and five years	69	72
After five years	161	168
	247	261

Operating lease receivables – Company as lessor

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

	28 September 2019 £m	29 September 2018 £m
Due within one year	7	6
Between one and five years	20	19
After five years	28	22
	55	47

The total value of future minimum sublease rental receipts included above is £16m. £2m of sublease income has been recognised as rental income in the income statement in the period.

18. Deferred tax

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

	28 September 2019 £m	29 September 2018 £m
Deferred tax asset		
Derivatives	51	42
	51	42
Deferred tax liability		
Accelerated tax depreciation	(32)	(33)
Revaluation of property	(158)	(146)
Rolled over and held over gains	(92)	(92)
Depreciated non-qualifying assets	(2)	(2)
	(284)	(273)
	(233)	(231)

18. Deferred tax (continued)

Deferred tax assets and liabilities are offset when there is legally enforceable right to offset income tax assets and income tax liabilities and when it is the intention to settle the balances on a net basis. Deferred tax assets and liabilities have therefore been offset and disclosed on the balance sheet as follows:

	28 September 2019 £m	29 September 2018 £m
Deferred tax assets	19	9
Deferred tax liability	(252)	(240)
	(233)	(231)

	52 weeks ended 28 September 2019 £m	52 weeks ended 29 September 2018 £m
Deferred tax in the income statement		
Accelerated tax depreciation	(1)	(2)
Revaluation of property	-	(5)
Total deferred tax credit in the income statement	(1)	(7)

19. Provisions

The provision for property leases has been set up to cover rental payments and service charge of vacant or loss-making properties. Payments are expected to continue on these properties for periods of 1 to 24 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:

	Onerous property provisions £m	Dilapidation provision £m	Total property provision £m
At 29 September 2018	7	1	8
Released in the period	(2)	(1)	(3)
Provided in the period	2	1	3
Unwinding of discount	-	-	-
Utilised in the period	(1)	-	(1)
At 28 September 2019	6	1	7

20. Equity

Share Capital

	28 September 2019		29 September 2018	
Allotted, called up and fully paid	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

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

20. Equity (continued)

Hedging reserve
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged future cash flows.

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

Retained earnings
The Company's ability to distribute these reserves by way of dividends is restricted by the securitisation covenants (see note 16).

21. Dividends

During the period, the Company has paid dividends of £25m (2018 £55m). 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 (2018 £nil).

22. 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.

23. 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 and Wales.