

# **Mitchells & Butlers Retail Limited**

## **Report and Financial Statements**

For the 52 weeks ended 25 September 2010

*Registered Number: 24542*

# Mitchells & Butlers Retail Limited

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## DIRECTORS' REPORT

at 25 September 2010

The Directors present their report on the affairs of the Company, together with the financial statements and independent report of the auditors, for the 52 weeks ended 25 September 2010. The comparative period is for the 52 weeks ended 26 September 2009.

### PRINCIPAL ACTIVITIES, BUSINESS REVIEW, RESULTS AND DIVIDENDS

The Company is the leading UK operator of managed pubs, bars and pub-restaurants with an estate of some 1,618 outlets at 25 September 2010 (2009: 1,698).

Turnover for the year was £1,633m (2009: £1,632m). The loss for the year before taxation amounted to £(25)m (2009: profit of £1m). Taxation charged against the loss for the year was £(14)m (2009: £90m credit) leaving a loss after tax of £(39)m (2009: profit of £91m). Dividends of £82m were declared during the year, making the total dividend paid during the year £108m (2009: £119m). No dividends were proposed at the year end (2009: £26m).

During the year the Mitchells & Butlers Group announced the disposal of the majority of its lodge and Hollywood Bowl businesses. On 10<sup>th</sup> August the Company disposed of 37 lodges at a NBV of £53.6m. On 9<sup>th</sup> August the Company disposed of 16 Hollywood Bowls at a NBV of £26.3m. These disposals are included within the total disposals figure in note 9. In connection with the disposal of the Hollywood Bowl business the Company also disposed of its investment in Mitchells and Butlers Leisure Entertainment Limited (see note 10).

On 14 November 2010 the Company completed the sale of 326 pubs to the Stonegate Pub Company Ltd, with 1 pub deferred subject to lease renewal. The remaining 6, making up the 333 as per the Mitchells & Butlers Group ('the Group') accounts, were held within Mitchells & Butlers Retail (No. 2) Limited. At 25 September 2010 the pubs were held within fixed assets at £354.1m, which constituted the expected sale proceeds less costs, and the sale was contingent on approval of the Group's shareholders, which was given at a general meeting on 26 October 2010. The Group continues to operate the pubs on Stonegate's behalf under a Transitional Services Agreement.

During the year, the Company continued to pursue a customer driven pub retailing strategy with a focus on amenity, value and service.

### KEY PERFORMANCE INDICATORS

The Company is the principal trading division of the Mitchells & Butlers plc group and the performance of the Company is monitored as part of the wider Group, using the same key performance indicators. These are discussed in the Annual Report and Accounts 2010 of Mitchells & Butlers plc and include:

1. Same outlet like-for-like sales growth – defined as the sales this year compared to the sales in the previous year of all managed pubs that were trading throughout the two years being compared;
2. EPS growth – defined as earnings per share before exceptional items and other adjustments for the year compared to last year;
3. Incremental return is the growth in annual pub operating profit expressed as a percentage of the associated capital investment for sites having received expansionary investment over the last two financial years. Sites are included once they have been trading for three months. For sites which have not been trading for a full 12 months, incremental return is estimated based on an annualisation of actual post-investment trading. Expansionary capital is capital invested to increase the trading areas of a pub or to materially change the customer offer.

In its Annual Report and Accounts 2010, Mitchells & Butlers plc reported that:

- like-for-like sales growth was 2.0% (FY2009: 1.6%);
- adjusted earnings per share increased by 25.8% (FY2009 decreased by 23.9%);
- pre-tax returns of 28% (FY 2009 13%) are being achieved on expansionary projects carried out over the last two years.

Further explanation of the reasons for the movements can be found in the Annual Report and Accounts 2010 of Mitchells & Butlers plc, available online at [www.mbplc.com/reports](http://www.mbplc.com/reports)

## DIRECTORS' REPORT

at 25 September 2010

### 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 2010 of Mitchells & Butlers plc. These include, but are not restricted to the following:

#### Market-driven risks

##### *Consumer expenditure*

Changes in the general economic climate, such as those caused by the global 'credit crunch' and the resultant UK recession, can have a detrimental effect on consumer expenditure and therefore the Company's revenue, profitability and consequently the value of its assets. More localised economic factors can also have an impact, such as reduced tourist visits to London as a result of the strength of the pound.

Mitchells & Butlers business is focused on the long-term potential of the eating-out market which has grown by 2.6% per year over the last 25 years. In addition Mitchells & Butlers owns pubs across the UK with a wide spectrum of customer offers targeted at different consumer groups and leisure occasions. This range provides flexibility to respond to changes in consumer expenditure either by altering the products sold and prices charged, or by substituting a more appropriate style of pub at a particular location.

##### *Consumer taste*

Changes in consumer taste, a new or improved competitor offering or unfavourable publicity may reduce the appeal of Mitchells & Butlers' brands to its customers, especially if the Company fails to anticipate, identify and respond adequately and promptly.

#### Operational risks

##### *Service standards*

Service standards are a critical component of Mitchells & Butlers' pubs' success with levels of service and retailing standards a key element in the consumer's choice of pub. Mitchells & Butlers operates ongoing staff training focusing on service quality and supports this through a variety of methods including guest satisfaction surveys.

##### *People*

Critical to Mitchells & Butlers' success is its ability to attract, retain, develop and motivate the best people with the right capabilities throughout the organisation. Remuneration packages are benchmarked to ensure that they remain competitive and a talent review process has been established to provide structured succession planning. The Company also makes significant investment in training to ensure that its people have the right skills to perform their jobs successfully. Furthermore an employee attitude survey is conducted annually to establish employee satisfaction and engagement and to compare it against other companies as well as previous annual surveys. In FY 2010 this survey has for the first time being extended to include pub managers.

##### *Pricing*

The pricing of products is a critical management tool in maximising cash gross margin and therefore growing the net operating profits of the business. There is a risk that if the Company fails to price the products that it sells at the right level, volume declines will occur if the price is too high or insufficient margin will be achieved if the price is too low, thereby impacting on the profitability of the Company. As a result, retail pricing decisions are constantly monitored by a central pricing team which reviews and assesses the impact of pricing changes on profitability to ensure that any changes are effective.

## DIRECTORS' REPORT

at 25 September 2010

### PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

#### Operational risks (continued)

##### *Supplier dynamics*

As a retailer Mitchells & Butlers is reliant on suppliers for all of its products. A major disruption to the supply chain may impact our ability to trade effectively, and fluctuations in food, drink and utility prices may significantly affect our cost base. Food accounts for almost half of Mitchells & Butlers retail sales and therefore food purchasing effectiveness is a key area of focus. The Company continually reviews the cost of goods for each menu item in order to maximise value to the customer as well as profits for the Company. Growth in food volumes also help mitigate cost increases through reduced ingredient prices. The Company also regularly reviews the financial position of its major suppliers to assess the risk of suppliers ceasing to be able to trade.

##### *Health and safety*

Mitchells & Butlers is the largest on-trade caterer in the UK and there is therefore the potential that there might be a major health and safety failure leading to illness, injury or loss of life or significant damage to the Company's reputation. In light of this, the Company has in place rigorous health and safety training programmes and regular independent audits which are carried out to ensure that procedures are followed.

##### *IT systems*

Mitchells & Butlers is reliant on its IT systems to trade efficiently and to ensure that appropriate controls are in place. There is a potential for a failure of key IT systems for a sustained period which may restrict sales or reduce operational effectiveness. In addition to this, key management information may be lost through a major breach in IT security. Therefore the Company has a crisis management team which has in place a number of tested contingency plans and disaster recovery processes to mitigate the impact of such failures.

#### Regulatory risks

Mitchells & Butlers operates in a heavily regulated sector, where changes in regulation can have a significant impact. Examples of recent regulatory changes include National Minimum Wage, changes to statutory holiday entitlement, licensing laws and smoking ban.

Mitchells & Butlers ensures it takes appropriate action to minimise the risks from legislation changes through a number of means including:

- active participation with industry organisations, such as the British Beer & Pub Association and the British Hospitality Association, ensuring that effective lobbying is carried out; and
- continual improvements in operating procedures to ensure any cost increases arising from such changes can be mitigated through productivity increases or other cost reductions.

#### Financial risks

If there were a material change in the economic climate or other significant financial impact there is a risk that the Group might not be able to fulfil the terms of its financial obligations. The Group can mitigate this risk if necessary by reducing its cash costs on maintenance or expansionary capital expenditure, to the minimum levels permitted under its banking covenants.

Further information on these risks can be found in the Annual report and accounts 2010 of Mitchells & Butlers plc.

# Mitchells & Butlers Retail Limited

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## DIRECTORS' REPORT

at 25 September 2010

### SECURITISATION

Since November 2003, the Company has operated within the Mitchells & Butlers securitisation structure. On 15 September 2006, the Company participated in a further debt ("tap") issue to borrow an additional £655m and refinance £450m of existing debt at lower cost. Under the securitisation structure, the Company has borrowed £2,284m (2009: £2,330m) 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.

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

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

The securitisation is governed by various covenants, warranties and events of default, including requirements to maintain free cash flow and net worth ratios. In addition, the Company has to satisfy certain conditions before it can pay dividends. Further details are provided in note 15 to the financial statements.

### FUTURE DEVELOPMENT

Mitchells & Butlers has developed its business strategy to focus on the growth parts of the eating and drinking-out market. The Company's aim is to be the UK's preferred choice for informal eating and drinking-out with market leading brands that provide excellent customer service, range and quality across the key customer occasions and grow shareholder value. The strategy to achieve this goal has 5 elements:

- Focusing the business on the growth in the eating out market
- Developing national brands with high customer affinity and relevance
- Generating high returns on investment through scale advantages
- Extending the skill base of operational excellence and consumer focus
- Continuing the sound financial base with a flexible approach to property ownership

### DIRECTORS

The following served as Directors of the Company during the year:

J A Berrow	(appointed 31 August 2010)	R Moxham	(appointed 12 October 2009)
A Coldrick	(appointed 12 October 2009)	R G Pratt	(resigned 21 April 2010)
C R Edger	(resigned 2 July 2010)	K Todd	(appointed 12 October 2009)
A Fowle		J C D Townsend	(resigned 31 August 2010)
B Kennedy	(resigned 21 October 2010)	S Singh	(appointed 24 May 2010)
S K Martindale	(appointed 31 August 2010)	A Vaughan	(appointed 31 August 2010)
A M Martin		A T Wheaton	(resigned 12 October 2009)
L J Miles	(appointed 31 August 2010)	R M Young	(appointed 1 June 2010)

## DIRECTORS' REPORT

at 25 September 2010

### SUPPLIER PAYMENT POLICY

The Company agrees payment terms with all of its main suppliers and abides by these terms subject to satisfactory performance by the supplier. Since 6 November 2003, Mitchells & Butlers Leisure Retail Limited has procured the supply and distribution of the majority of goods, including food, beer, spirits and other drinks, for the Company. As a consequence, the Company has not carried a material level of trade creditors since this date.

### DISABLED EMPLOYEES AND CUSTOMERS

The Company is committed to providing equal opportunity to all employees and equality of service provision to our disabled customers without discrimination and is supportive of the employment and advancement of disabled and disadvantaged persons.

### EMPLOYEE CONSULTATION

The Company places considerable emphasis on employee communication, particularly on matters relating to the Company's business and its performance. Communication channels include regular team meetings, informal briefings, in-house publications and the intranet. Regular feedback is obtained through employee focus groups and employee opinion surveys, the results of which are used in developing management policies and best practice.

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

### HEALTH & SAFETY

The Company strives to provide and maintain a safe environment for all employees, customers and other visitors to its premises and to comply with relevant health and safety legislation.

### CHARITABLE DONATIONS

The Company's charitable donations in the financial period were £nil (2009: £nil). Charitable donations made by the Mitchells & Butlers Group are disclosed in the Mitchells & Butlers plc Annual report and accounts 2010. The Company makes donations in kind, such as offering its facilities for use pro bono, or by giving free meals in Company premises and every year, its pub managers and staff raise significant funds for charitable causes.

### AUDITORS

A resolution to re-appoint Ernst & Young LLP as the Company's auditors will be put to the forthcoming Annual General Meeting.

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 auditors are 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 auditors are aware of that information.

By order of the Board



J A Berrow

Director

Dated: 22-11-10

### STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the Report of the Auditors set out on page 7, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the Auditors in relation to the financial statements.

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). The financial statements are required by law to 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 those financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to 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 AUDITORS' REPORT TO THE MEMBERS OF MITCHELLS & BUTLERS RETAIL LIMITED**

We have audited the financial statements of Mitchells & Butlers Retail Limited for the year ended 25 September 2010 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the statement of historical cost profits and losses 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 (United Kingdom Generally Accepted Accounting Practice).

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

### **Respective responsibilities of Directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 25 September 2010 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

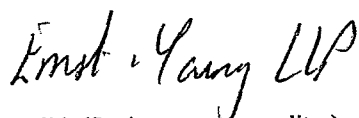
### **Opinion on other matter prescribed by the Companies Act 2006**

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

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Nigel Meredith (Senior statutory auditor)  
For and on behalf of Ernst & Young LLP  
Statutory Auditor  
Birmingham  
22 November 2010



# Mitchells & Butlers Retail Limited

## PROFIT AND LOSS ACCOUNT

For the 52 weeks ended 25 September 2010

	<i>Notes</i>	<i>52 weeks ended 25 September 2010 £m</i>	<i>52 weeks ended 26 September 2009 £m</i>
<b>TURNOVER</b>	2	<b>1,633</b>	1,632
Costs and overheads*	3	<b>(1,541)</b>	(1,492)
<b>OPERATING PROFIT</b>	4	<b>92</b>	140
<b>NON-OPERATING EXCEPTIONAL ITEMS:</b>			
Profit/(loss) on disposal of fixed assets		<b>18</b>	(5)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST</b>		<b>110</b>	135
Interest receivable and similar income		<b>1</b>	4
Interest payable and similar charges	6	<b>(136)</b>	(138)
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>(25)</b>	1
Tax on (loss)/profit on ordinary activities	7	<b>(14)</b>	90
<b>RETAINED (LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>	18	<b>(39)</b>	91

\* 2010 includes an exceptional impairment charge in respect of tangible fixed assets of £173m (2009: £114m).

The notes on pages 11 to 32 form an integral part of these financial statements.

All turnover and costs are derived from continuing operations.

# Mitchells & Butlers Retail Limited

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the 52 weeks ended 25 September 2010

	<i>52 weeks ended 25 September 2010 £m</i>	<i>52 weeks ended 26 September 2009 £m</i>
<b>RETAINED (LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>	<b>(39)</b>	<b>91</b>
Unrealised (loss)/gain on revaluation of the property portfolio	(4)	15
<b>TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR</b>	<b>(43)</b>	<b>106</b>

## STATEMENT OF HISTORICAL COST PROFITS AND LOSSES

For the 52 weeks ended 25 September 2010

	<i>52 weeks ended 25 September 2010 £m</i>	<i>52 weeks ended 26 September 2009 £m</i>
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	<b>(25)</b>	<b>1</b>
Realisation of property revaluation surplus on sale of properties	13	10
<b>HISTORICAL COST (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	<b>(12)</b>	<b>11</b>
<b>HISTORICAL COST (LOSS)/PROFIT RETAINED AFTER TAXATION</b>	<b>(26)</b>	<b>101</b>

The notes on pages 11 to 32 form an integral part of these financial statements.

**BALANCE SHEET**  
 at 25 September 2010

	<i>Notes</i>	<b>2010</b> <i>£m</i>	<b>2009</b> <i>£m</i>
<b>FIXED ASSETS</b>			
Tangible assets	9	3,497	3,787
Investments	10	21	21
		<u>3,518</u>	<u>3,808</u>
<b>CURRENT ASSETS</b>			
Stocks	11	22	22
Debtors			
Amounts falling due within one year	12	1,678	1,662
Cash at bank and in hand		214	91
		<u>1,914</u>	<u>1,775</u>
<b>CREDITORS: amounts falling due within one year</b>	13	(309)	(276)
		<u>1,605</u>	<u>1,499</u>
<b>NET CURRENT ASSETS</b>			
		<u>5,123</u>	<u>5,307</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
<b>CREDITORS: amounts falling due after more than one year</b>	14	(2,236)	(2,271)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	16	(84)	(82)
		<u>2,803</u>	<u>2,954</u>
<b>NET ASSETS</b>			
<b>CAPITAL AND RESERVES</b>			
Share capital	17	4	4
Share premium account	18	1,561	1,561
Revaluation reserve	18	1,162	1,179
Profit and loss account	18	76	210
		<u>2,803</u>	<u>2,954</u>
<b>EQUITY SHAREHOLDERS' FUNDS</b>			
		<u>2,803</u>	<u>2,954</u>

The notes on pages 11 to 32 form an integral part of these financial statements.

Signed on behalf of the Board



J A Berrow  
 Director

Dated: 22-11-10

## NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 25 September 2010

### 1. ACCOUNTING POLICIES

A summary of the principal accounting policies applied by the Company is set out below. They comply with applicable accounting standards in the United Kingdom.

#### ***Basis of accounting***

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets.

The Company's accounting reference date is 30 September. The Company has drawn up its financial statements for the 52 weeks to 25 September 2010, the Saturday directly preceding the accounting reference date, as permitted by section 390(3) of the Companies Act 2006. The comparative period is for the 52 weeks ended 26 September 2009.

#### ***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.

The financial statements include the results of the Company for the 52 week period ended 25 September 2010. The comparative period is for the 52 week period ended 26 September 2009. The respective balance sheets have been drawn up to 25 September 2010 and 26 September 2009.

#### ***Cash flow***

As permitted under FRS1 (Revised 1996) 'Cash flow statements', the Company has taken advantage of the exemption from preparing a cash flow statement as the Company is a wholly owned subsidiary undertaking of Mitchells & Butlers plc whose financial statements for the 52 weeks ended 25 September 2010 include a consolidated cash flow statement incorporating the cash flows of the Company.

#### ***Fixed asset investments***

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

#### ***Fixed assets and depreciation***

Freehold and long leasehold land and buildings are stated, after initial recognition at cost, at fair market value. Fair market value is the fair value at the date of the revaluation. The Company revalues its freehold and long leasehold land and buildings to fair value, which it reviews at least annually.

Short leasehold properties (properties with an unexpired term of 50 years or less) and fixtures, fittings and equipment are held at cost less depreciation and impairment, which is also considered by the Company to be a reasonable approximation to their fair value.

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

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

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

# Mitchells & Butlers Retail Limited

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## NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 25 September 2010

### 1. ACCOUNTING POLICIES (CONTINUED)

#### *Fixed assets and depreciation (continued)*

When implementing FRS 15 'Tangible Fixed Assets' in the year to 30 September 2000, the Company did not adopt a policy of revaluing properties. The transitional rules of FRS 15 were applied so that the carrying values of properties included an element resulting from previous valuations.

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

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

The cost of plant, machinery, fixtures, fittings, tools and equipment is spread, on a straight line basis, over the estimated useful lives of the relevant assets, namely:

Equipment in retail outlets	3-20 years
Information technology equipment	3-7 years
Vehicles	4-5 years
Plant and machinery	4-20 years

#### *Leases*

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership have passed to the Company, are capitalised in the balance sheet and depreciated on a straight line basis over their useful lives. The capital elements of future obligations under leases are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases.

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

#### *Stocks*

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

#### *Pensions*

Mitchells & Butlers plc, the sponsoring employer, accounts for pensions in accordance with FRS 17 'Retirement Benefits'. Since there is no contractual agreement or policy in place to allocate the defined benefit plan across the group subsidiaries that each employ members of these plans, which include the Company, the net defined benefit cost is recognised by Mitchells & Butlers plc. Accordingly, the Company's profit and loss account charge in respect of its defined benefit arrangements is equal to its contributions payable to Mitchells & Butlers plc for the cost of providing pension benefits to the Company for the period. The Company's profit and loss account charge in respect of its defined contribution arrangements is equal to the contributions payable for the period.

For the defined contribution arrangements, the charge against profits is equal to the amount of contributions payable.

The deficit in the Mitchells & Butlers plc pension plans, as measured on an FRS 17 basis, is recorded in the financial statements of Mitchells & Butlers plc, the sponsoring employer of the Mitchells & Butlers pension plans. The FRS 17 disclosures included in the Mitchells & Butlers plc financial statements are replicated in note 5 to these financial statements.

#### *Deferred taxation*

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

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 25 September 2010

1. ACCOUNTING POLICIES (CONTINUED)

*Deferred taxation (continued)*

Timing differences not recognised include those relating to the revaluation of fixed assets in the absence of a commitment to sell the assets and the gain on sale of assets rolled over into replacement assets.

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

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

*Turnover*

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

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

*Borrowings and derivative financial instruments*

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

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

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

*Share-based payment*

The Company recognises an expense in the profit and loss account in respect of share options and employee share awards awarded to employees, with the expense measured at fair value at date of grant and charged over the vesting period of the scheme. The expense relates principally to share options and employee share awards granted to employees participating in the Mitchells & Butlers plc Sharesave and Share Incentive Plans.

*Use of estimates*

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

2. TURNOVER ANALYSIS

The Company consolidated its 'Pubs & Bars' and 'Restaurants' divisions into one pub restaurant business, which incorporates all of its managed UK pub restaurants. The Company has identified its individual brands as its operating segments. As none of the operating segments of the business constitute ten per cent or more of the Company's operations, the results are reported as one segment under SSAP 25. The Mitchells & Butlers Group reported on 24 March 2010 that in future it intends to assess the performance of its retail operating units after incorporating a rental charge and to review the results and position of the retail operating and property businesses independently. As this change was not reflected in the management reporting of the business during the period, the Company has not yet updated its segment disclosures to reflect this proposed change.

# Mitchells & Butlers Retail Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 25 September 2010

### 3. COSTS AND OVERHEADS

	<i>52 weeks ended 25 September 2010 £m</i>	<i>52 weeks ended 26 September 2009 £m</i>
Goods for resale and consumables	475	490
Staff costs (note 5)	385	376
Depreciation of tangible fixed assets (note 9)	102	104
Movements in the valuation of the property portfolio (note 9):		
Revaluation adjustments	160	114
Other impairment	13	-
	173	114
Maintenance and repairs	37	34
Other external charges	369	374
	<hr/> 1,541	<hr/> 1,492
	<hr/>	<hr/>
	<i>52 weeks ended 25 September 2010 £m</i>	<i>52 weeks ended 26 September 2009 £m</i>
The following amounts are included above:		
Hire of plant and machinery		
- under operating leases	7	8
- other	21	22
Other operating lease rentals	<hr/> 36	<hr/> 38

Auditors' remuneration for audit services was £0.25m (2009: £0.3m). There was £0.7m of non-audit fees incurred by the Company (2009: nil). Details of non-audit fees of the Group are disclosed in the Annual report and accounts 2010 of Mitchells & Butlers plc.

# Mitchells & Butlers Retail Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 25 September 2010

### 4. OPERATING PROFIT

	<i>52 weeks ended 25 September 2010 £m</i>	<i>52 weeks ended 26 September 2009 £m</i>
EBITDA	367	358
Depreciation	(102)	(104)
Ordinary operating profit	265	254
Movements in the valuation of the property portfolio (note 9):		
- Revaluation adjustments	(160)	(114)
- Other impairment	(13)	-
	(173)	(114)
Operating profit after exceptional items	92	140

EBITDA above is earnings before interest, tax, depreciation and movements in the valuation of the property portfolio.

### 5. STAFF COSTS

	<i>52 weeks ended 25 September 2010 £m</i>	<i>52 weeks ended 26 September 2009 £m</i>
Employee costs during the year amounted to:		
Wages and salaries	353	348
Share-based payments	1	1
Social security costs	24	23
Pensions	7	4
	385	376

#### *Average number of employees*

The average number of persons employed by the Company during the year, including part time employees, was 36,350 (2009: 34,286).



# Mitchells & Butlers Retail Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 25 September 2010

### 5. STAFF COSTS (CONTINUED)

#### *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. The defined benefit sections of the plans closed to new entrants during 2002 with new members provided with defined contribution arrangements. The defined benefit liability relates to these funded plans, together with an unfunded unapproved pension arrangement (the Executive Top-Up Scheme, or MABETUS) in respect of certain MABEPP members. The assets of the plans are held in self-administered trust funds separate from the Company's assets.

The Company concluded a process of consultation and review on plans to close the defined benefit plans to future accrual with the Trustees on 2 November 2010. The ceasing of future accrual will be effective from 13 March 2011.

#### **Measurement of assets and liabilities – FRS 17**

Mitchells & Butlers plc has accounted for pensions in accordance with FRS 17 'Retirement Benefits'. As explained in note 1 to the financial statements, the Company accounts for defined benefit pension costs by recognising a profit and loss account charge equal to the contributions payable, being a recharge from Mitchells & Butlers plc for the cost of providing pension benefits to the Company for the period. The Company's profit and loss account charge in respect of its defined contribution arrangements is equal to the contributions payable for the period.

The valuations used for FRS 17 purposes are based on the results of the latest full actuarial valuation carried out at 31 March 2010 and updated by the Schemes' qualified actuaries to 25 September 2010. Scheme assets are stated at market value at 25 September 2010 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. FRS 17 requires that the scheme liabilities are discounted using market yields at the end of the period on high quality corporate bonds (see 'discount rate' assumption in the table below). The FRS 17 deficit calculated on this basis is £(143)m, (2009: £(130)m; 2008: £(23)m) – as set out below. The discount rate applied to the pension schemes' liabilities is significant to the net balance sheet valuation of the schemes and is subject to a high degree of judgement and complexity. It is estimated that a 0.1% increase or decrease in the discount rate used would, in isolation, reduce or increase the net balance sheet deficit by approximately £30m (2009: £25m), with no impact on the income statement charge.

Pension costs are assessed in accordance with the advice of independent qualified actuaries. As the defined benefit sections of the pension plans are now closed to new members, the current service cost as calculated under the projected unit method will increase as members approach retirement.

#### *Principal financial assumptions*

The principal financial assumptions used by the actuaries at the balance sheet date were:

	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Wages and salaries increases	2.0%*	2.0%*	5.0%**	4.9%**	4.4%
Pensions increases	3.3%	3.3%	3.5%	3.4%	2.9%
Discount rate	5.1%	5.5%	6.5%	5.9%	5.0%
Inflation rate	3.3%	3.3%	3.5%	3.4%	2.9%

\* Reflects the impact of pension changes introduced during the prior period

\*\* Represents the assumption for MABPP members (6.0% for MABEPP members (2007: 5.9%). This included allowance for promotional salary increases.

5. STAFF COSTS (CONTINUED)

*Mortality assumptions*

The mortality assumptions have been updated following the latest full actuarial valuation and are based on the S1NA mortality tables for the MABPP and S1NA 'light' tables for the MABEPP. An allowance was made for medium cohort projection with a 1% underpin. Ages are rated up by one year for pensioners of the MABPP and rated down by two years for all members of the MABEPP. The 2009 mortality assumptions were based on the PA92 'year of birth' standard tables.

A summary of the average life expectancies assumed is as follows:

	2010		2009	
	Main Plan years	Exec Plan years	Main Plan years	Exec Plan years
Male member aged 65 (current life expectancy)	20.2	24.5	19.4	23.6
Male member aged 45 (life expectancy at 65)	22.9	26.3	21.2	24.8
Female member aged 65 (current life expectancy)	23.0	25.9	22.2	26.5
Female member aged 45 (life expectancy at 65)	25.7	27.9	24.0	27.7

**Amounts recognised in respect of defined benefit schemes**

The long-term rates of return on assets at 25 September 2010 shown below form the basis of the calculation of the expected return on pension scheme assets for the 2011 financial year. The 2009 rates shown are used in calculating the 2010 expected return.

To develop the expected long-term rate of return on assets assumptions, the Mitchells & Butlers Group considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was weighted based on the asset allocation, to develop the expected long-term rate of return on assets assumption for the portfolio, resulting in a weighted average assumption of 5.1% (2009: 5.5%). The actual investment return achieved on the scheme assets over the year was 11.8% (2009: 7.9%), which represented a gain of £135m (2009: £84m).

# Mitchells & Butlers Retail Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 25 September 2010

### 5. STAFF COSTS (CONTINUED)

The combined assets of the MABPP and MABEPP, their expected rates of return and the value of the pension scheme assets and liabilities at the balance sheet date can be summarised as follows:

	2010 Long-term rates of return expected %	Value £m	2009 Long-term rates of return expected %	Value £m
Equities	7.4	464	7.5	467
Bonds	4.1	935	4.5	800
Property	7.4	6	7.5	13
<b>Fair value of assets</b>		<b>1,405</b>		<b>1,280</b>
<b>Present value of scheme liabilities</b>		<b>(1,548)</b>		<b>(1,410)</b>
<b>Deficit in the schemes recognised as a liability in the balance sheet</b>		<b>(143)</b>		<b>(130)</b>
<b>Associated deferred tax asset</b>		<b>39</b>		<b>36</b>

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

Group income statement	2010 £m	2009 £m
Operating profit:		
Current service cost (defined benefit plans)	(8)	(10)
Current service cost (defined contribution plans)	(3)	(2)
Exceptional pension credit	-	44
<b>(Charge)/credit to operating profit</b>	<b>(11)</b>	<b>32</b>
Finance income:		
Expected return on pension scheme assets	69	73
Interest on pension scheme liabilities	(76)	(79)
Net finance charge in respect of pensions	(7)	(6)
<b>Total (charge)/credit</b>	<b>(18)</b>	<b>26</b>
<b>Group statement of comprehensive income</b>	<b>2010 £m</b>	<b>2009 £m</b>
Actual return less expected return on pension scheme assets	65	10
Changes in assumptions underlying the present value of the scheme liabilities	(108)	(184)
<b>Actuarial loss recognised</b>	<b>(43)</b>	<b>(174)</b>

# Mitchells & Butlers Retail Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 25 September 2010

### 5. STAFF COSTS (CONTINUED)

The table below analyses the movement in the schemes' net deficit in the period:

	Pension assets		Pension obligations		Net deficit	
	2010	2009	2010	2009	2010	2009
	£m	£m	£m	£m	£m	£m
At beginning of period	1,280	1,211	(1,410)	(1,234)	(130)	(23)
Current service cost	-	-	(8)	(10)	(8)	(10)
Interest cost on benefit obligations	-	-	(76)	(79)	(76)	(79)
Expected return on plan assets	69	73	-	-	69	73
Employee contributions	1	1	(1)	(1)	-	-
Employer contributions	45	39	-	-	45	39
Benefits paid	(55)	(54)	55	54	-	-
Actuarial gain/(loss) recognised	65	10	(108)	(184)	(43)	(174)
Exceptional pension credit	-	-	-	44	-	44
At end of period	1,405	1,280	(1,548)	(1,410)	(143)	(130)

#### History of experience gains and losses:

	2010	2009	2008	2007	2006
<b>Difference between the expected and actual return on scheme assets</b>					
Amount (£m)	65	10	(150)	24	43
Percentage of scheme assets	5%	1%	(12)%	2%	4%
<b>Experience gains and losses on scheme liabilities</b>					
Amount (£m)	34	-	(2)	(16)	-
Percentage of the present value of the scheme liabilities	2%	-	0%	(1)%	-
			-	-	-
<b>Total amount recognised in the Group statement of recognised income and expense</b>					
Amount (£m)	(43)	(174)	(35)	33	27
Percentage of the present value of the scheme liabilities	(3)%	(12)%	(3)%	3%	2%

The cumulative amount of actuarial gains and losses recognised since 26 September 2004 in the Mitchells & Butlers Group statement of comprehensive income is a £199m loss (2009 £156m loss).

# Mitchells & Butlers Retail Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 25 September 2010

### 5. STAFF COSTS (CONTINUED)

#### Funding valuation and future funding obligations

The results of the 2010 actuarial valuation showed a funding deficit of £400m, using a more prudent basis to discount the scheme liabilities than is required by FRS 17 and on 21 July 2010 the Company formally agreed a 10 year recovery plan with the Trustees to close the funding deficit in respect of its pension scheme liabilities. The result of this is that the Group has agreed to increase additional contributions from £24m to £40m per annum, commencing from 1 April 2010, subject to review at the next full actuarial valuation in 2013. The Group has therefore made additional contributions of £32m during the current financial year and will make further additional contributions of £40m in each of the financial years from 2011 to 2019 and £20m in the financial year 2020.

In the 52 weeks ended 25 September 2010, the Mitchells & Butlers Group paid regular contributions of £13m (2009: £15m) and additional contributions of £32m (2009: £24m) in respect of the defined benefit arrangements. In addition the Mitchells & Butlers Group paid £3m (2009: £2m) in respect of the defined contribution arrangements.

The pension charge in respect of the defined benefit arrangements included in the profit and loss account of the Company represents the recharge from Mitchells & Butlers plc in respect of the costs of the defined benefit plans for the 52 weeks ended 25 September 2010 of £5.7m (2009: £3.0m). 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 25 September 2010 was £1.0m (2009: £0.8m).

#### Directors' remuneration

Six of the 16 Directors who served during the year received no remuneration in respect of the Company.

Directors' remuneration was paid in respect of their services to the Company as follows:

	<i>52 weeks ended 25 September 2010 £m</i>	<i>52 weeks ended 26 September 2009 £m</i>
Emoluments	2.7	1.6
		<i>No</i>
Members of defined benefit pension schemes at period end:		
- remunerated in respect of the Company	5	4
- not remunerated in respect of the Company	3	-

The above figures do not include any amount in respect of pension benefits or value of share options granted to, or held by, the Directors.

# Mitchells & Butlers Retail Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 25 September 2010

### 5. STAFF COSTS (CONTINUED)

#### *Directors' remuneration (continued)*

In the 52 weeks to 25 September 2010 ten Directors exercised share options (2009: eight Directors). Gains made by Directors, prior to taxation, on the exercise of share options during the year amounted to £0.7m (2009: £0.8m). In the 52 weeks ended 25 September 2010, shares became receivable under the Share Incentive Plan for five (2009: four) Directors who are remunerated by the Company. The net value of new shares receivable by all Directors of the Company (post taxation) under the Share Incentive Plan during the year, amounted to £6,000 (2009: £2,000) based on the year end share price.

At the period end four Directors were members of the defined contribution pension scheme (2009: two Directors). The Directors' remuneration shown above (including gains on share options, but excluding pensions and pension contributions) included:

	<i>52 weeks ended 25 September 2010 £m</i>	<i>52 weeks ended 26 September 2009 £m</i>
Highest paid Director	0.5	0.4
Accrued pension	0.1	0.1

During the year, the highest paid Director exercised share options realising a gain of £0.2m (2009: £0.1m).

### 6. INTEREST PAYABLE AND SIMILAR CHARGES

	<i>52 weeks ended 25 September 2010 £m</i>	<i>52 weeks ended 26 September 2009 £m</i>
Loans payable to Mitchells & Butlers Finance plc	136	138

# Mitchells & Butlers Retail Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 25 September 2010

### 7. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

<i>Tax (credit)/charge</i>	<i>52 weeks ended 25 September 2010 £m</i>	<i>52 weeks ended 26 September 2009 £m</i>
UK corporation tax at 28% (2009: 28%)		
Current year	34	48
Group relief received for nominal consideration	(18)	(48)
Prior years	-	(68)
Total Current Tax	16	(68)
Deferred Tax		
Origination and reversal of timing differences	(7)	(19)
Prior years	8	(3)
Change in tax rate	(3)	-
Total Deferred Tax	(2)	(22)
Tax on profit/loss on ordinary activities	14	(90)
Further analysed as tax relating to:		
Operating profit before exceptional items	15	(67)
Exceptional items – current and deferred tax	(1)	(23)
	14	(90)
<b><i>Tax Reconciliation</i></b>	<b>%</b>	<b>%</b>
UK Corporation Tax standard rate	28	28
Permanent differences	13	(252)
Capital allowances in excess of depreciation	(4)	1,848
Other timing differences	1	(140)
Adjustment to tax charge in respect of prior years	-	(6,800)
Exceptional items	(176)	3,360
Group relief received for nominal consideration	74	(4,844)
Effective current tax rate	(64)	(6,800)

# Mitchells & Butlers Retail Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 25 September 2010

### 7. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

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

A number of changes to the UK Corporation Tax system were announced in the June 2010 Budget Statement. The first of these changes was enacted in July 2010 and reduces the main rate of corporation tax from 28% to 27% from 1 April 2011. The effect of this change has been reflected in the closing deferred tax balance shown in note 16.

Further reductions are proposed to be enacted separately each year with the aim of reducing the rate by 1% per annum to 24% by 1 April 2014. In addition, proposals were put forward to reduce the rate of capital allowances from April 2012. None of these further changes had been substantively enacted at the balance sheet date and therefore the effects are not included in these financial statements. We estimate that these further changes in total, if enacted as proposed, could increase the level of cash tax payable by the Group, although the full effects have yet to be quantified. The reduction in the corporation tax rate is likely to result in a further reduction in the net deferred tax liability provided at 25 September 2010 of approximately £9m in total.

### 8. DIVIDENDS

During the year, the Company paid dividends of £108m (2009: £119m) to its immediate parent Company, Mitchells & Butlers Retail Holdings Limited. There were no dividends proposed at the year end (2009: £26m).

### 9. TANGIBLE FIXED ASSETS

	<i>Land &amp; buildings £m</i>	<i>Fixtures, fittings &amp; equipment £m</i>	<i>Total £m</i>
Cost or valuation:			
At 27 September 2009	3,291	807	4,098
Additions	44	69	113
Disposals	(103)	(62)	(165)
Fully depreciated assets written off in the year	(15)	(38)	(53)
Revaluation*	(169)	(20)	(189)
<b>At 25 September 2010</b>	<b>3,048</b>	<b>756</b>	<b>3,804</b>
Depreciation:			
At 27 September 2009	62	249	311
Provided in the year	20	82	102
Disposals	(12)	(29)	(41)
Fully depreciated assets written off in the year	(15)	(38)	(53)
Revaluation*	(12)	-	(12)
<b>At 25 September 2010</b>	<b>43</b>	<b>264</b>	<b>307</b>
Net book value:			
<b>At 25 September 2010</b>	<b>3,005</b>	<b>492</b>	<b>3,497</b>
At 26 September 2009	3,229	558	3,787

\* £173m (2009: £114m) has been charged against current year profits (note 4), with the balance of £4m (2009: £15m) recognised through the revaluation reserve (note 18).

Of the net book value above, £2m (2009: £2m) is attributable to assets held under finance leases.



# Mitchells & Butlers Retail Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 25 September 2010

### 9. TANGIBLE FIXED ASSETS (CONTINUED)

#### *Properties*

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

Short leasehold properties (properties with an unexpired term of 50 years or less) and fixtures, fittings and equipment are held at cost less depreciation and impairment, which is also considered by the Company to be a reasonable approximation to their fair value.

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

The licensed freehold and long leasehold land and buildings were valued at market value, as at 25 September 2010 and 26 September 2009 by Colliers CRE plc, independent chartered surveyors and by Andrew Cox MRICS, Director of Property, Chartered Surveyor. The valuation was carried out in accordance with the provisions of RICS Appraisal and Valuation Standards ('The Red Book') assuming each asset is sold as part of the continuing enterprise in occupation individually as a fully operational trading entity. The market value has been determined having regard to factors such as current and future projected income levels, taking account of the location, the quality of the pub or restaurant and recent market transactions in the sector. Changes in these assumptions such as the valuation basis applied in comparable market transactions, or the income level generated by a pub could materially impact the valuation of the freehold and long leasehold land and buildings. It is estimated that a £1 change in the EBITDA of the freehold and long leasehold land and buildings would generate a circa £8 movement in their valuation.

#### *Analysis of land & buildings*

	<i>Cost or Valuation £m</i>	<i>Depreciation £m</i>	<i>Net Book Value 25 September 2010 £m</i>	<i>Net Book Value 26 September 2009 £m</i>
Licensed and unlicensed properties:				
Freehold	2,758	(5)	2,753	2,933
Leasehold with unexpired term of over 50 years	183	(3)	180	180
Leasehold with unexpired term of under 50 years	107	(35)	72	116
Total land & buildings	3,048	(43)	3,005	3,229

<i>Historical cost of properties</i>	<i>Cost £m</i>	<i>Depreciation £m</i>	<i>Net Book Value £m</i>
At 25 September 2010	1,815	(65)	1,750
At 26 September 2009	2,037	(58)	1,979

# Mitchells & Butlers Retail Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 25 September 2010

### 10. FIXED ASSET INVESTMENTS

	<i>Subsidiary undertakings £m</i>
Cost:	
At 27 September 2009	36
Sold in the period*	(4)
<b>At 25 September 2010</b>	<b>32</b>
Provision:	
At 27 September 2009	15
Provision released in the period*	(4)
<b>At 25 September 2010</b>	<b>11</b>
<b>Net book value:</b>	
<b>At 25 September 2010</b>	<b>21</b>
At 26 September 2009	21

\* On 10<sup>th</sup> August the Company disposed of its investment in Mitchells and Butlers Leisure Entertainment Limited in connection with the disposal of the Hollywood Bowl business. The investment was sold for proceeds of £1.

Details of the investments in which the Company holds directly more than 10% of the nominal value of any class of share capital are as follows:

<i>Subsidiary undertaking</i>	<i>Country of registration (or incorporation) and operation</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of Business</i>
Browns Restaurants Limited**	England and Wales	Ordinary shares	100%	Non-trading
Old Kentucky Restaurants Limited	England and Wales	Ordinary shares	100%	Trade mark owner

\*\* These companies have subsidiaries which are either dormant or non-trading.

### 11. STOCKS

	<i>2010 £m</i>	<i>2009 £m</i>
Goods held for resale	<b>22</b>	22

The replacement cost of stocks approximates to the value above.

# Mitchells & Butlers Retail Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 25 September 2010

### 12. DEBTORS

	2010 £m	2009 £m
Trade debtors	1	1
Loan to Mitchells & Butlers Retail Holdings Limited*	1,362	1,362
Loan to parent undertaking*	282	282
Other debtors	23	-
Prepayments	10	17
	<hr/>	<hr/>
	1,678	1,662
	<hr/>	<hr/>

\* Non-interest-bearing loan.

All amounts fall due within one year.

### 13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2010 £m	2009 £m
Borrowings (note 15)	51	48
Amounts owed to fellow subsidiary undertakings	155	157
UK corporation tax payable	8	-
Other taxation and social security	49	33
Other creditors and accruals	46	38
	<hr/>	<hr/>
	309	276
	<hr/>	<hr/>

### 14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2010 £m	2009 £m
Borrowings (note 15)	2,224	2,271
Other creditors*	12	-
	<hr/>	<hr/>
	2,236	2,271
	<hr/>	<hr/>

\* Other creditors comprises an amount held in respect of the Company's gaming machine VAT claim. A decision was released during the period in respect of Rank plc's gaming claim and this latest ruling fell in the taxpayer's favour. As a result, the Group was able to further pursue its own gaming claim which was submitted in April 2006. HMRC agreed to make a repayment of the existing claim, subject to the Company providing a guarantee to HMRC that, in the event that the existing decision is overturned in a higher court, the amount will be repayable in full. HMRC has lodged an appeal with the European Court of Justice in respect of the Rank plc decision. The Company is holding the repayment amount of £12.3m (including interest and net of associated fees) as a liability until there is more certainty as to the outcome of this appeal.

# Mitchells & Butlers Retail Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 25 September 2010

### 15. BORROWINGS

	<b>2010</b>	<b>2009</b>
	<b>£m</b>	<b>£m</b>
Term advances with Mitchells & Butlers Finance plc (see below)	<b>2,274</b>	2,318
Obligations under finance leases	<b>1</b>	1
	<b>2,275</b>	2,319
<b><i>Maturity profile</i></b>	<b>2010</b>	<b>2009</b>
	<b>£m</b>	<b>£m</b>
Amounts falling due within one year	<b>51</b>	48
Amounts falling due after more than one year:		
Between one and two years	<b>51</b>	485
Between two and five years	<b>825</b>	760
After five years	<b>1,348</b>	1,026
	<b>2,224</b>	2,271
	<b>2,275</b>	2,319

Obligations under finance leases are analysed as £1m due between one and two years.

#### ***Term advances with 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 in the following six tranches:

- Class A1 (2005 Class A1) floating rate Term Advance for £200,000,000 due 2030
- Class A2 5.584% Term Advance for £550,000,000 due 2030
- Class A3 (2005 Class A3) floating rate Term Advance for £250,000,000 due 2030
- Class B1 5.975% Term Advance for £350,000,000 due 2025
- Class B2 6.023% Term Advance for £350,000,000 due 2030
- Class C1 6.479% Term Advance for £200,000,000 due 2032

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

- Class A4 floating rate Term Advance for £170,000,000 due 2030
- Class AB floating rate Term Advance for £325,000,000 due 2034
- Class C2 floating rate Term Advance for £50,000,000 due 2036
- Class D1 floating rate Term Advance for £110,000,000 due 2038

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

# Mitchells & Butlers Retail Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 25 September 2010

### 15. BORROWINGS (CONTINUED)

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

Tranche	Interest	Margin	Margin step-up date	Post step-up margin
A1N	3 month LIBOR	0.19%	December 2010	0.46%
A3N	3 month LIBOR	0.19%	December 2010	0.46%
A4	3 month LIBOR	0.24%	September 2013	0.59%
AB	3 month LIBOR	0.25%	September 2013	0.61%
C2	3 month LIBOR	0.76%	September 2013	1.89%
D1	3 month LIBOR	0.86%	September 2013	2.14%

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

-	A1N	5.3705%
-	A3N	5.4545%
-	A4	5.0522%
-	AB	4.9492%
-	C2	5.3532%
-	D1	5.4182%

The carrying value of the Term Advances at 25 September 2010 is analysed as follows:

	2010 £m	2009 £m
Principal outstanding at the start of the year	2,330	2,375
Principal repaid during the period	(46)	(45)
Principal outstanding at the end of the year	2,284	2,330
Deferred finance costs	(13)	(16)
Accrued interest	3	4
Carrying value at the end of the year	2,274	2,318

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

# Mitchells & Butlers Retail Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 25 September 2010

### 15. BORROWINGS (CONTINUED)

The Issuer/Borrower Facility Agreement includes customary covenants, warranties and events of default. In particular, the Company must maintain a minimum free cash flow to debt service coverage ratio of no less than 1.10:1 as measured on any financial quarter date, in respect of the most recent relevant period or the most recent relevant year. The Company must also maintain net worth in excess of £500,000,000; net worth is the aggregate of consolidated net worth and the difference between book value and the latest valuation report. The Company is restricted in its ability to: (a) make any payments or other disposal of cash or other funds to another Group entity (including payment of dividends, payment of interest, distributions, repayment of loans, capital contributions etc.), except for any payment specifically permitted (such as payment to the intra group services company) unless (i) to the extent that a working capital facility remains outstanding all payments due and payable have been made, (ii) no event of default has occurred and is continuing or would occur as a result of the making of such payment, and (iii) certain minimum free cash flow to debt service ratios (at least 1.3:1) and EBITDA to debt service payments ratios (at least 1.7:1) are met; (b) sell, lease, transfer or dispose of any secured properties without the consent of the security trustee, and proceeds from these permitted disposals shall be deposited into a secured account with restrictions on the use of such funds (disposal of assets other than secured properties are also subject to certain conditions); (c) acquire or substitute any business over which security is granted, or would be granted; (d) incur more than £7,500,000 in permitted encumbrances or more than £7,500,000 in permitted indebtedness. The Company is required to incur or reserve for each fiscal year a required maintenance amount equal to a minimum of 5.7% of the actual aggregate turnover in respect of the preceding fiscal year of the secured properties, or £35,000 per pub in the same period.

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

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

### 16. PROVISIONS FOR LIABILITIES AND CHARGES

#### *Deferred taxation*

	2010 £m	2009 £m
At 27 September 2009	82	103
Profit and loss account: current and prior years	1	(22)
Profit and loss account: change in tax rate	(3)	-
Transfer from corporation tax	-	1
At 25 September 2010	80	82
	2010 £m	2009 £m
Analysed as tax on timing differences related to:		
Fixed assets	68	64
Deferred gains	13	20
Other	(1)	(2)
	80	82

# Mitchells & Butlers Retail Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 25 September 2010

### 16. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

No provision has been made for deferred tax on the sale of properties at their revalued amounts or where gains have been or are expected to be deferred against expenditure on replacement assets for an indefinite period until the sale of the replacement assets. The total amount unprovided is estimated at £346m (26 September 2009: £408m). It is not anticipated that any such tax will be payable in the foreseeable future.

#### *Property lease provision*

	2010 £m	2009 £m
At 27 September 2009	-	-
Charged to the profit and loss account	4	-
	<hr/>	<hr/>
At 25 September 2010	4	-
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Onerous property provisions represent the expected unavoidable losses on onerous and vacant property leases and comprises the lower of the net rent payable or the operating loss after rental costs. The provision is calculated on a site by site basis, with an estimated period of future losses ranging from three to five years.

### 17. CALLED UP SHARE CAPITAL

	2010 £m	2009 £m
Authorised 5,000,000 ordinary shares of £1 each (2009: 5,000,000)	5	5
	<hr/>	<hr/>
Allotted, called up and fully paid 3,882,000 ordinary shares of £1 each (2009: 3,882,000)	4	4
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### 18. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Share capital £m	Share premium £m	Revaluation reserve £m	Profit & loss account £m	Total £m
At 27 September 2009	4	1,561	1,179	210	2,954
Revaluation surplus realised	-	-	(13)	13	-
Unrealised loss on revaluation of the property portfolio	-	-	(4)	-	(4)
Retained loss	-	-	-	(39)	(39)
Dividends	-	-	-	(108)	(108)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 25 September 2010	4	1,561	1,162	76	2,803
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The Company's ability to distribute its profit and loss account reserve by way of dividend is restricted by the securitisation covenants as set out in note 15.

# Mitchells & Butlers Retail Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 25 September 2010

### 19. FINANCIAL COMMITMENTS

#### *Operating lease commitments*

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

	<i>Properties 2010 £m</i>	<i>Other 2010 £m</i>	<i>Properties 2009 £m</i>	<i>Other 2009 £m</i>
Within one year	-	3	-	3
Between one and five years	1	3	1	3
After five years	24	-	24	-
	<hr/>	<hr/>	<hr/>	<hr/>
	25	6	25	6
	<hr/>	<hr/>	<hr/>	<hr/>

#### *Capital commitments*

	<i>2010 £m</i>	<i>2009 £m</i>
Future capital expenditure contracted for, but not provided for, in the financial statements	24	15
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### 20. RELATED PARTY DISCLOSURE

The Company has taken advantage of the exemption in FRS 8 as a wholly owned subsidiary not to disclose details of related party transactions with other members of the Group.

### 21. 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 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 group granted full fixed and floating security over their respective assets and undertaking.

The Company has entered into swap arrangements with Mitchells & Butlers Finance plc which convert underlying borrowings with an effective principal of £1,105m from floating rate interest payable to fixed rate interest payable. At the year end these had a fair value of £(197.6)m (2009: £(109.7)m).

### 22. ULTIMATE PARENT UNDERTAKING

Mitchells & Butlers plc is the ultimate parent undertaking and controlling party of the Company. The immediate parent undertaking of the Company is Mitchells & Butlers Retail Holdings Limited. Copies of the Group consolidated financial statements of Mitchells & Butlers plc are available online at [www.mbplc.com/reports](http://www.mbplc.com/reports) and from the Company Secretary, Mitchells & Butlers plc, 27 Fleet Street, Birmingham B3 1JP.

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



**23. POST BALANCE SHEET EVENT**

On 14 November 2010 the Company completed the sale of 326 pubs to the Stonegate Pub Company Ltd, with 1 pub deferred subject to lease renewal. The remaining 6, making up the 333 as per the Mitchells & Butlers Group ('the Group') accounts, were held within Mitchells & Butlers Retail (No. 2) Limited.

At 25 September 2010 the pubs were held within fixed assets at £354.1m, which constituted the expected sale proceeds less attributable costs to sell, and the sale was contingent on approval of the Group's shareholders, which was given at a general meeting on 26 October 2010. The Group continues to operate the pubs on Stonegate's behalf under a Transitional Services Agreement.