

Mitchells & Butlers Retail Limited

Report and Financial Statements

For the 52 weeks ended 24 September 2011

Registered Number: 24542

Mitchells & Butlers Retail Limited

DIRECTORS' REPORT

at 24 September 2011

The Directors present their report on the affairs of the Company, together with the financial statements and independent report of the auditor, for the 52 weeks ended 24 September 2011. The comparative period is for the 52 weeks ended 25 September 2010.

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 1,442 outlets at 24 September 2011 (2010: 1,618).

Turnover for the year was £1,533m (2010: £1,633m) with EBITDA (excluding exceptional impairment charge) of £355m (2010: £367m). The profit for the year before taxation amounted to £75m (2010: loss of £(25)m). Taxation charged against the profit for the year was £7m (2010: £(14)m loss) leaving a profit after tax of £68m (2010: loss of £(39)m). At the balance sheet date the Company recorded net assets of £2,873m (2010: £2,803m). Dividends of £59m (2010: £82m) were declared during the year, making the total dividend paid during the year £59m (2010: £108m). No dividends were proposed at the year end (2010: £nil).

On 14 November 2010 the Company completed the sale of 326 pubs to the Stonegate Pub Company Limited, with 1 further pub also sold but completion delayed until 22 April 2011. 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 £354m, 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.

During the period 182 outlets were transferred at a fair value of £462m from Mitchells & Butlers Retail (No 2) Limited to the Company in order for funds received from the above disposal to be released from the securitised estate.

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 2011 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 UK managed pubs that were trading in the two periods 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 EBITDA expressed as a percentage of the associated capital investment for sites having received expansionary investment over the last two financial years. For pubs 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 2011, Mitchells & Butlers plc reported that:

- like-for-like sales growth was 2.6% (FY2010: 2.0%);
- adjusted earnings per share decreased by 5.7% (FY2010 increased by 25.8%);
- pre-tax returns of 21% (FY 2010 31%) 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 2011 of Mitchells & Butlers plc, available online at www.mbplc.com/reports.

DIRECTORS' REPORT

at 24 September 2011

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 2011 of Mitchells & Butlers plc. These include, but are not restricted to the following:

Market risks

Consumer taste and brand management

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

On a regular basis, a brand strategy team meets involving marketers, operators and finance as part of a structured programme to improve continuously existing brands and to develop new customer offers. This process is co-ordinated with the capital expenditure programme to ensure that investment is taking place in support of customers' changing needs.

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

Pricing and market changes

External influences, such as changes in the general economic climate or competitor activity, could have a detrimental effect on customers' spending patterns and therefore the Company's revenue, profitability and consequently the value of its assets.

Mitchells & Butlers' business is focussed on the long term potential of the eating out market. The Company owns sites across the UK with a wide spectrum of customer offers targeted at different consumer groups and leisure occasions. This range allows the Company to respond to changes in consumer expenditure either by flexing our offerings or by substituting a different style of pub restaurant at a particular location. This activity is supported by dedicated central Pricing and Revenue Management and Asset Planning teams which analyse and evaluate a range of information including that in respect of competitors.

Operational risks

Investments in Acquisitions and Conversions

Mitchells & Butlers' strategy is to increase significantly its number of restaurants to drive further scale advantage and to convert its existing sites to those food-led brands that provide strong incremental returns. However, it may not be possible to identify and acquire suitable sites on acceptable terms and investments may not perform as anticipated.

The Group's dedicated Acquisitions and Asset Planning team employs a rigorous project appraisal process in respect of investments, using external advisors where necessary. Post investment performance of acquired or converted sites investments is monitored in detail.

DIRECTORS' REPORT

at 24 September 2011

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Operational risks (continued)

People Planning and Development

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

Remuneration packages are benchmarked to ensure that they remain competitive and a talent review process is used 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 survey is conducted annually to establish employee satisfaction and engagement and compare it with other companies as well as previous annual surveys. Where appropriate, changes in working practices are made in response to the findings of these surveys.

Energy Price Increases

Mitchells & Butlers is a large commercial user of gas and electricity. There is a risk that costs increase because of global increases in demand and uncertainty of supply in energy producing nations.

The energy procurement strategy seeks to reduce the risk of cost increases and uncertainty over energy prices by a rolling programme of short and medium term purchases against forecast requirements.

A dedicated central energy management team is responsible for optimising energy usage across the organisation by promoting energy efficient working practices via training and educational programmes and by the installation of energy efficient equipment.

Cost of Goods Price Increases

Increases in the price of goods for resale as a result of increases in global demand and uncertainty of supply in producing nations can have a significant impact on the cost base consequently impacting margins.

Mitchells & Butlers leverages its scale to drive competitive cost advantage and collaborates with suppliers to increase efficiencies in the supply chain. The fragmented nature of the food supply industry on the world commodity markets gives the company the opportunity to source products from a number of alternative suppliers in order to drive down cost. The Company continually evolves the composition of menus and retail prices in order to optimise value to the customer as well as profits for the Company.

Business Continuity and Crisis Management

Mitchells & Butlers relies on its food and drink supply chain and the key IT systems underlying the business to serve its customers efficiently and effectively. Supply chain interruption, IT system failure or crises such as terrorist activity or the threat of disease pandemic might restrict sales or reduce operational effectiveness.

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

DIRECTORS' REPORT

at 24 September 2011

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Regulatory risks

Health and safety

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

Mitchells & Butlers maintains a robust programme of health and safety checks both within its pubs and restaurants and throughout the supply chain. The dedicated central Safety Assurance team uses a number of technical partners including food technologists, microbiologists and allergy specialists 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.

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 debt covenants.

Further information on these risks can be found in note 19 (Financial Instruments) of the Annual Report and Accounts 2011 of Mitchells & Butlers plc.

SECURITISATION

Since November 2003, the Company has operated within the Mitchells & Butlers securitisation structure, borrowing £1,900m from Mitchells & Butlers Finance plc. 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 this securitisation structure, the Company has borrowed £2,235m (2010: £2,284m) after amortisation, from Mitchells & Butlers Finance plc under an Issuer/Borrower Facility Agreement dated 13 November 2003, amended and restated on 15 September 2006. The borrowings ("Term Advances") are secured on the Company's assets and future income streams there from. Mitchells & Butlers Finance plc is a fellow subsidiary within the Group and the issuer of secured loan notes to third party investors for the same amount.

The securitisation is governed by various covenants, warranties and events of default, including requirements to maintain free cash flow and net worth ratios. In addition, the Company has to satisfy certain conditions before it can pay dividends. Further details are provided in note 14 to the financial statements.

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

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

Mitchells & Butlers Retail Limited

DIRECTORS' REPORT

at 24 September 2011

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 five 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

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.

DIRECTORS

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

J A Berrow	(resigned 08.03.2011)	R Moxham	(resigned 15.11.2011)
A Coldrick	(resigned 15.11.2011)	S Singh	
A Fowle	(resigned 15.03.2011)	K Todd	
B Kennedy	(resigned 21.10.2010)	A Vaughan	
S K Martindale		R M Young	
A M Martin	(resigned 15.11.2011)		
L J Miles			

Mitchells & Butlers plc provides Directors and Officers liability insurance for all Group directors.

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.

Mitchells & Butlers Retail Limited

DIRECTORS' REPORT

at 24 September 2011

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 (2010: £nil). Charitable donations made by the Mitchells & Butlers Group are disclosed in the Mitchells & Butlers plc Annual Report and Accounts 2011. 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.

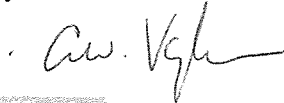
AUDITOR

Deloitte LLP were appointed as the Company's auditor during the year. A resolution to re-appoint Deloitte LLP 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 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.

By order of the Board



A Vaughan

Director

Dated: 21 November 2011

Mitchells & Butlers Retail Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the Report of the Auditor set out on page 8, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the Auditor 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 AUDITOR'S REPORT TO THE MEMBERS OF MITCHELLS & BUTLERS RETAIL LIMITED

We have audited the financial statements of Mitchells & Butlers Retail Limited for the 52 weeks ended 24 September 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Statement of Historical Cost Profits and Losses, the Balance Sheet, and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 24 September 2011 and of its profit for the 52 weeks then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the 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.



Stephen Griggs (Senior statutory auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, UK
21 November 2011

Mitchells & Butlers Retail Limited

PROFIT AND LOSS ACCOUNT

For the 52 weeks ended 24 September 2011

		<i>52 weeks ended 24 September 2011 £m</i>	<i>52 weeks ended 25 September 2010 £m</i>
	<i>Notes</i>		
TURNOVER	2	1,533	1,633
Costs and overheads*	3	(1,317)	(1,541)
OPERATING PROFIT		216	92
NON-OPERATING EXCEPTIONAL ITEMS:			
(Loss)/profit on disposal of fixed assets		(9)	18
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		207	110
Interest receivable and similar income		1	1
Interest payable and similar charges	5	(133)	(136)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		75	(25)
Tax on profit/(loss) on ordinary activities	6	(7)	(14)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION	17	68	(39)

* 2011 includes an exceptional impairment charge in respect of tangible fixed assets of £47m (2010: £173m).

The notes on pages 12 to 31 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 24 September 2011

	<i>52 weeks ended 24 September 2011 £m</i>	<i>52 weeks ended 25 September 2010 £m</i>
RETAINED PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION	68	(39)
Unrealised gain/(loss) on revaluation of the property portfolio	61	(4)
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR	129	(43)

STATEMENT OF HISTORICAL COST PROFITS AND LOSSES

For the 52 weeks ended 24 September 2011

	<i>52 weeks ended 24 September 2011 £m</i>	<i>52 weeks ended 25 September 2010 £m</i>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	75	(25)
Realisation of property revaluation surplus on sale of properties	133	13
HISTORICAL COST PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	208	(12)
HISTORICAL COST PROFIT/(LOSS) RETAINED AFTER TAXATION	201	(26)

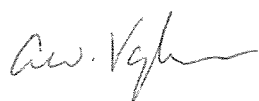
The notes on pages 12 to 31 form an integral part of these financial statements.

BALANCE SHEET
at 24 September 2011

	<i>Notes</i>	<i>2011</i> <i>£m</i>	<i>2010</i> <i>£m</i>
FIXED ASSETS			
Tangible assets	8	3,594	3,497
Investments	9	21	21
		3,615	3,518
CURRENT ASSETS			
Stocks	10	19	22
Debtors: amounts falling due within one year	11	1,652	1,678
Other cash deposits		20	-
Cash at bank and in hand		115	214
		1,806	1,914
CREDITORS: amounts falling due within one year	12	(288)	(309)
		1,518	1,605
NET CURRENT ASSETS			
		5,133	5,123
TOTAL ASSETS LESS CURRENT LIABILITIES			
CREDITORS: amounts falling due after more than one year	13	(2,189)	(2,236)
PROVISIONS FOR LIABILITIES AND CHARGES	15	(71)	(84)
		2,873	2,803
NET ASSETS			
CAPITAL AND RESERVES			
Share capital	16	4	4
Share premium account	17	1,561	1,561
Revaluation reserve	17	1,108	1,162
Profit and loss account	17	200	76
		2,873	2,803
SHAREHOLDERS' FUNDS			
		2,873	2,803

The notes on pages 12 to 31 form an integral part of these financial statements.

Signed on behalf of the Board



A Vaughan

Director

Dated: 21 November 2011

Mitchells & Butlers Retail Limited

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 24 September 2011

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 24 September 2011, 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 25 September 2010.

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 24 September 2011. The comparative period is for the 52 week period ended 25 September 2010. The respective balance sheets have been drawn up to 24 September 2011 and 25 September 2010.

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.

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 24 September 2011 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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 24 September 2011

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:

Information technology equipment	3-7 years
Vehicles	4-5 years
Fixtures and fittings	3-20 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.

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 4 to these financial statements.

Taxation

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

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

Mitchells & Butlers Retail Limited

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 24 September 2011

1. ACCOUNTING POLICIES (CONTINUED)

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 to the extent that it is more likely than not that they will be rolled over into replacement assets.

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

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

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.

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

Mitchells and Butlers Retail Limited is a wholly owned subsidiary of Mitchells and Butlers Group, with its operations falling under a single class of business and all residing within the UK. As such the Company is not required to complete separate disclosure notes under SSAP25 and opts to disclose only a single business segment.

Mitchells & Butlers Retail Limited

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 24 September 2011

3. COSTS AND OVERHEADS

	<i>52 weeks ended 25 September 2011 £m</i>	<i>52 weeks ended 26 September 2010 £m</i>
The following amounts are included within costs and overheads:		
Hire of plant and machinery		
- under operating leases	5	7
- other	13	21
Other operating lease rentals	23	36
Movements in the valuation of the property portfolio (note 8)*	47	173
Depreciation of tangible fixed assets (note 8)	<u>92</u>	<u>102</u>

* During the period 182 outlets were transferred from Mitchells & Butlers Retail (No 2) Limited to the Company in order for funds received from the disposals completed by the Company during the period to be released from the securitised estate. Since the valuation of the assets on transfer was in excess of their book value an exceptional impairment charge of £44m arose. The remaining £3m of movement in the valuation of the property portfolio comprises £9m of impairment recognised on short leasehold and unlicensed properties where their carrying values exceed their recoverable amount, net of a £6m credit arising from the Company's revaluation of its pub estate.

Fees payable to the Company's auditor for the audit of the Company's accounts were ~~£0.15m~~. 2010 fees of £0.25m were payable to Ernst & Young LLP. Fees payable to Deloitte LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

4. STAFF COSTS

	<i>52 weeks ended 24 September 2011 £m</i>	<i>52 weeks ended 25 September 2010 £m</i>
Employee costs during the year amounted to:		
Wages and salaries	343	353
Share-based payments	1	1
Social security costs	22	24
Pensions	3	7
	<u>369</u>	<u>385</u>

Average number of employees

The average number of persons employed by the Company during the year, including part time employees, was 34,007 (2010: 36,350). All employees are engaged in front line operational activities of trading sites.

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. On 2 November 2010, Mitchells & Butlers plc concluded a process of consultation and review with the Trustees, in which it considered proposals to close the defined benefit plan to future accruals. The ceasing of future accruals for this plan became effective from 13 March 2011. At the

Mitchells & Butlers Retail Limited

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 24 September 2011

4. STAFF COSTS (CONTINUED)

Pensions (continued)

same time Mitchells & Butlers plc implemented a revised defined contribution benefit structure. The defined benefit liability relates to these funded plans, together with an unfunded unapproved pension arrangement (the Executive Top-Up Scheme, or MABETUS) in respect of certain MABEPP members. The assets of the plans are held in self-administered trust funds separate from the Company's assets.

Measurement of assets and liabilities – 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 24 September 2011. Scheme assets are stated at market value at 24 September 2011 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 £(37)m, (2010: £(143)m; 2009: £(130)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 £26m (2010: £30m), 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:

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Wages and salaries increases	2.0%*	2.0%*	2.0%*	5.0%**	4.9%**
Pensions increases	3.1%	3.3%	3.3%	3.5%	3.4%
Discount rate	5.2%	5.1%	5.5%	6.5%	5.9%
Inflation rate	3.2%	3.3%	3.3%	3.5%	3.4%

* Reflects the impact of pension changes introduced during 2009.

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

4. STAFF COSTS (CONTINUED)

Mortality assumptions

The mortality assumptions were reviewed following the full actuarial valuation in March 2010 and are based on the SINA mortality tables for the MABPP and SINA '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.

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

	2011		2010	
	Main Plan years	Exec Plan years	Main Plan years	Exec Plan years
Male member aged 65 (current life expectancy)	20.3	24.6	20.2	24.5
Male member aged 45 (life expectancy at 65)	23.0	26.4	22.9	26.3
Female member aged 65 (current life expectancy)	23.1	26.0	23.0	25.9
Female member aged 45 (life expectancy at 65)	25.8	28.0	25.7	27.9

Amounts recognised in respect of defined benefit schemes

The long-term rates of return on assets at 24 September 2011 shown below form the basis of the calculation of the expected return on pension scheme assets for the 2012 financial year. The 2010 rates shown are used in calculating the 2011 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 is 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 5.2% (2010: 5.1%). The actual investment return achieved on the scheme assets over the year was 5.8% (2010: 11.8%), which represented a gain of £74m (2010: £135m).

Mitchells & Butlers Retail Limited

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 24 September 2011

4. 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:

	2011 Long-term rates of return expected %	Value £m	2010 Long-term Rates of return Expected %	Value £m
Equities	6.9	420	7.4	464
Bonds	3.8	1,046	4.1	935
Property	3.8	6	7.4	6
Fair value of assets		1,472		1,405
Present value of scheme liabilities		(1,509)		(1,548)
Deficit in the schemes recognised as a liability in the balance sheet		(37)		(143)
Associated deferred tax asset		9		39

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

Group income statement	2011 £m	2010 £m
Operating profit:		
Current service cost (defined benefit plans)	(4)	(8)
Current service cost (defined contribution plans)	(4)	(3)
Exceptional pension charge	(13)	-
Charge to operating profit	(21)	(11)
Finance income:		
Expected return on pension scheme assets	74	69
Interest on pension scheme liabilities	(79)	(76)
Net finance charge in respect of pensions	(5)	(7)
Total charge	(26)	(18)
Group statement of comprehensive income	2011 £m	2010 £m
Actual return less expected return on pension scheme assets	5	65
Changes in assumptions underlying the present value of the scheme liabilities	79	(108)
Actuarial gain/(loss) recognised	84	(43)

Mitchells & Butlers Retail Limited

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 24 September 2011

4. STAFF COSTS (CONTINUED)

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

	Pension assets		Pension obligations		Net deficit	
	2011	2010	2011	2010	2011	2010
	£m	£m	£m	£m	£m	£m
At beginning of period	1,405	1,280	(1,548)	(1,410)	(143)	(130)
Current service cost	-	-	(4)	(8)	(4)	(8)
Interest cost on benefit obligations	-	-	(79)	(76)	(79)	(76)
Expected return on plan assets	74	69	-	-	74	69
Employee contributions	1	1	(1)	(1)	-	-
Employer contributions	44	45	-	-	44	45
Benefits paid	(57)	(55)	57	55	-	-
Actuarial gain/(loss) recognised	5	65	79	(108)	84	(43)
Exceptional pension charge	-	-	(13)	-	(13)	-
At end of period	1,472	1,405	(1,509)	(1,548)	(37)	(143)
History of experience gains and losses:						
		2011	2010	2009	2008	2007
Difference between the expected and actual return on scheme assets						
Amount (£m)		5	65	10	(150)	24
Percentage of scheme assets		0%	5%	1%	(12)%	2%
Experience gains/(losses) on scheme liabilities						
Amount (£m)		-	34	-	(2)	(16)
Percentage of the present value of the scheme liabilities		-	2%	-	0%	(1)%
Total amount recognised in the Group statement of comprehensive income						
		2011	2010	2009	2008	2007
Amount (£m)		84	(43)	(174)	(35)	33
Percentage of the present value of the scheme liabilities		8%	(3)%	(12)%	(3)%	3%

The cumulative amount of actuarial gains and losses recognised since 26 September 2004 in the Mitchells & Butlers Group statement of comprehensive income is a £115m loss (2010 £199m loss).

Mitchells & Butlers Retail Limited

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 24 September 2011

4. 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 was that the Group 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 £40m during the current financial year and, subject to this review, will make further additional contributions of £40m in each of the financial years from 2012 to 2019 and £20m in the financial year 2020.

In the 52 weeks ended 24 September 2011, the Mitchells & Butlers Group paid regular contributions of £4m (2010: £13m) and additional contributions of £40m (2010: £32m) in respect of the defined benefit arrangements. In addition the Mitchells & Butlers Group paid £6m (2010: £3m) 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 24 September 2011 of £1.3m (2010: £5.7m). 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 24 September 2011 was £2.1m (2010: £1.0m).

Directors' remuneration

The twelve Directors who served during the year, were all employed by another group company (Mitchells and Butlers Leisure Retail Limited) and are also directors of other subsidiary companies of the Mitchells and Butlers Group. The directors received total remuneration of £3.3m (2010: £4.5m) in respect of their services to the Group, but it is not practicable to allocate this between each of the subsidiary companies for which they act as a director. At the period end all (2010: four) of the directors were members of the Group's defined contribution scheme, with six (2010: seven) directors also holding accrued service within the Group's defined benefit scheme.

The highest paid Director received emoluments of £0.3m (2010 £0.5m), with Company contributions to defined contribution pension schemes of £0.1m (2010: £0.1m). The highest paid Director did not exercise any share options in the year.

5. INTEREST PAYABLE AND SIMILAR CHARGES

	<i>52 weeks ended 24 September 2011 £m</i>	<i>52 weeks ended 25 September 2010 £m</i>
Loans payable to Mitchells & Butlers Finance plc	133	136

Mitchells & Butlers Retail Limited

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 24 September 2011

6. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

<i>Tax (credit)/charge</i>	<i>52 weeks ended 24 September 2011 £m</i>	<i>52 weeks ended 25 September 2010 £m</i>
UK corporation tax at 27% (2010: 28%)		
Current year	29	34
Group relief received for nominal consideration	(6)	(18)
Prior years	(3)	-
Total Current Tax	20	16
Deferred Tax		
Origination and reversal of timing differences	(10)	(7)
Prior years	2	8
Change in tax rate	(5)	(3)
Total Deferred Tax	(13)	(2)
Tax on profit/loss on ordinary activities	7	14
Further analysed as tax relating to:		
Operating profit before exceptional items	25	15
Exceptional items – current and deferred tax	(18)	(1)
	7	14
<i>Tax Reconciliation</i>	%	%
UK Corporation Tax standard rate	27	28
Permanent differences	(6)	13
Capital allowances in excess of depreciation	(1)	(4)
Other timing differences	(1)	1
Adjustment to tax charge in respect of prior years	(4)	-
Exceptional items	20	(176)
Group relief received for nominal consideration	(8)	74
Effective current tax rate	27	(64)

Factors which may affect future tax charges

A number of changes to the UK Corporation Tax system were announced in the March 2011 Budget Statement. The Finance Act 2011 was enacted on 19 July 2011 and reduced the main rate of corporation tax from 26% to 25% from 1 April 2012. The effect of this change has been reflected in the closing deferred tax balance shown in note 15.

Mitchells & Butlers Retail Limited

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 24 September 2011

6. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES (CONTINUED)

Further reductions to the main rate of corporation tax are proposed to be enacted separately each year with the aim of reducing the rate by 1% per annum to 23% by 1 April 2014. In addition the Finance Act 2011 reduced the rate of capital allowances from 1 April 2012. None of these further changes are included in these financial statements. We estimate that these further changes in total, could decrease 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 24 September 2011 of approximately £5m in total.

7. DIVIDENDS

During the year, the Company paid dividends of £59m (2010: £108m) to its immediate parent Company, Mitchells & Butlers Retail Holdings Limited. There were no dividends proposed at the year end (2010: £nil).

8. TANGIBLE FIXED ASSETS

	<i>Land & buildings £m</i>	<i>Fixtures, fittings & equipment £m</i>	<i>Total £m</i>
Cost or valuation:			
At 25 September 2010	3,048	756	3,804
Additions	36	63	99
Transfer from group company	425	37	462
Disposals	(342)	(146)	(488)
Transfer to group company	-	(3)	(3)
Fully depreciated assets written off in the year	(12)	(55)	(67)
Impairment*	(53)	-	(53)
Revaluation*	58	-	58
At 24 September 2011	3,160	652	3,812
Depreciation:			
At 25 September 2010	43	264	307
Provided in the year	16	76	92
Disposals	(26)	(77)	(103)
Transfer to group company	-	(2)	(2)
Fully depreciated assets written off in the year	(12)	(55)	(67)
Revaluation*	(9)	-	(9)
At 24 September 2011	12	206	218
Net book value:			
At 24 September 2011	3,148	446	3,594
At 25 September 2010	3,005	492	3,497

* £47m has been charged (2010: £173m charged) against current year profits (see note 3), with the balance of £61m gain (2010: £4m loss) recognised through the revaluation reserve (see note 17).

Of the net book value above, £nil (2010: £2m) is attributable to assets held under finance leases as these have been transferred to another group company during the period.

Mitchells & Butlers Retail Limited

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 24 September 2011

8. 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.

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

The freehold and long leasehold land and buildings were valued at market value, as at 24 September 2011 and 25 September 2010 by Colliers International UK 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 24 September 2011 £m</i>	<i>Net Book Value 25 September 2010 £m</i>
Freehold (at valuation)	2,806	(1)	2,805	2,753
Leasehold with unexpired term of over 50 years (at valuation)	261	(1)	260	180
Leasehold with unexpired term of under 50 years (at cost)	93	(10)	83	72
Total land & buildings	3,160	(12)	3,148	3,005

<i>Historical cost of properties</i>	<i>Cost £m</i>	<i>Depreciation £m</i>	<i>Net Book Value £m</i>
At 24 September 2011	1,959	(2)	1,957
At 25 September 2010	1,779	(8)	1,771

Mitchells & Butlers Retail Limited

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 24 September 2011

9. FIXED ASSET INVESTMENTS

	<i>Subsidiary undertakings £m</i>
Cost:	
At 25 September 2010	32
Additions	-
At 24 September 2011	32
Provision:	
At 25 September 2010	11
Provision made in the period	-
At 24 September 2011	11
Net book value:	
At 24 September 2011	21
At 25 September 2010	21

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

* This company has subsidiaries which are either dormant or non-trading.

10. STOCKS

	<i>2011 £m</i>	<i>2010 £m</i>
Goods held for resale	19	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 24 September 2011

11. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011 £m	2010 £m
Trade debtors	-	1
Loan to Mitchells & Butlers Retail Holdings Limited*	1,362	1,362
Loan to Mitchells & Butlers plc*	282	282
Other debtors	-	23
Prepayments	8	10
	<hr/> 1,652	<hr/> 1,678
	<hr/> <hr/>	<hr/> <hr/>

* Non-interest-bearing loan.

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011 £m	2010 £m
Borrowings (note 14)	49	51
Amounts owed to fellow subsidiary undertakings	126	155
UK corporation tax payable	7	8
Other taxation and social security	48	49
Other creditors and accruals	58	46
	<hr/> 288	<hr/> 309
	<hr/> <hr/>	<hr/> <hr/>

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

	2011 £m	2010 £m
Borrowings (note 14)	2,177	2,224
Other creditors*	12	12
	<hr/> 2,189	<hr/> 2,236
	<hr/> <hr/>	<hr/> <hr/>

* Other creditors comprises an amount held in respect of the Company's gaming machine VAT claim. A decision was released during the year ended 25 September 2010 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 lodged an appeal with the European Court of Justice ("ECJ") in 2010 in respect of the Rank plc decision. The ECJ released its decision on the Rank plc case on 11 November 2011. The outcome is still uncertain as HMRC are able to refer certain items back to the UK courts if they choose to. The Company continues to hold the repayment amount of £12m (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 24 September 2011

14. BORROWINGS

	2011 £m	2010 £m
Term advances with Mitchells & Butlers Finance plc (see below)	2,226	2,274
Obligations under finance leases	-	1
	<hr/> 2,226	<hr/> 2,275
	<hr/> <hr/>	<hr/> <hr/>
<i>Maturity profile</i>	<i>2011</i> <i>£m</i>	<i>2010</i> <i>£m</i>
Amounts falling due within one year	49	51
Amounts falling due after more than one year:		
Between one and two years	709	51
Between two and five years	182	825
After five years	1,286	1,348
	<hr/> 2,177	<hr/> 2,224
	<hr/> <hr/> 2,226	<hr/> <hr/> 2,275

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 A1N floating rate Term Advance for £200,000,000 due 2030
- Class A2 5.584% Term Advance for £550,000,000 due 2030
- Class A3N floating rate Term Advance for £250,000,000 due 2030
- Class B1 5.975% Term Advance for £350,000,000 due 2025
- Class B2 6.023% Term Advance for £350,000,000 due 2030
- 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 24 September 2011

14. 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	0.46%		
A3N*	3 month LIBOR	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%

* On 15 December 2010, the margin on the A1N and A3N Term Advances stepped up from 0.19% to the current margin of 0.46%.

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

-	A1N	5.6405%
-	A3N	5.7245%
-	A4	5.0522%
-	AB	4.9492%
-	C2	5.3532%
-	D1	5.4182%

The carrying value of the Term Advances at 24 September 2011 is analysed as follows:

	2011 £m	2010 £m
Principal outstanding at the start of the year	2,284	2,330
Principal repaid during the period	(49)	(46)
Principal outstanding at the end of the year	2,235	2,284
Deferred finance costs	(12)	(13)
Accrued interest	3	3
Carrying value at the end of the year	2,226	2,274

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 24 September 2011

14. 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.

15. PROVISIONS FOR LIABILITIES AND CHARGES

	<i>2011</i>	<i>2010</i>
	<i>£m</i>	<i>£m</i>
Deferred taxation	67	80
Property Provisions	4	4
	<hr/>	<hr/>
	71	84
	<hr/> <hr/>	<hr/> <hr/>

Mitchells & Butlers Retail Limited

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 24 September 2011

15. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

Deferred taxation

	<i>2011</i>	<i>2010</i>
	<i>£m</i>	<i>£m</i>
At beginning of period	80	82
Profit and loss account: current and prior years	(8)	1
Profit and loss account: change in tax rate	(5)	(3)
	<hr/>	<hr/>
At end of period	67	80
	<hr/> <hr/>	<hr/> <hr/>
	<i>2011</i>	<i>2010</i>
	<i>£m</i>	<i>£m</i>
Analysed as tax on timing differences related to:		
Fixed assets	54	68
Deferred gains	13	13
Other	-	(1)
	<hr/>	<hr/>
	67	80
	<hr/> <hr/>	<hr/> <hr/>

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 £330m (25 September 2010: £346m). It is not anticipated that any such tax will be payable in the foreseeable future.

Property lease provision

	<i>2011</i>	<i>2010</i>
	<i>£m</i>	<i>£m</i>
At 25 September 2010	4	-
Utilised	(1)	-
Charged to the profit and loss account	1	4
	<hr/>	<hr/>
At 24 September 2011	4	4
	<hr/> <hr/>	<hr/> <hr/>

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.

Mitchells & Butlers Retail Limited

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 24 September 2011

16. CALLED UP SHARE CAPITAL

	2011 £m	2010 £m
Authorised 5,000,000 ordinary shares of £1 each (2010: 5,000,000)	5	5
Allotted, called up and fully paid 3,882,000 ordinary shares of £1 each (2010: 3,882,000)	4	4

17. RECONCILIATION OF MOVEMENT IN RESERVES AND SHAREHOLDERS' FUNDS

	<i>Share capital £m</i>	<i>Share premium £m</i>	<i>Revaluation reserve £m</i>	<i>Profit & loss account £m</i>	<i>Total £m</i>
At 25 September 2010	4	1,561	1,162	76	2,803
Revaluation surplus realised	-	-	(115)	115	-
Unrealised surplus on revaluation of the property portfolio	-	-	61	-	61
Profit	-	-	-	68	68
Dividends	-	-	-	(59)	(59)
At 24 September 2011	4	1,561	1,108	200	2,873

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

18. FINANCIAL COMMITMENTS

Operating lease commitments

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

	<i>Properties 2011 £m</i>	<i>Other 2011 £m</i>	<i>Properties 2010 £m</i>	<i>Other 2010 £m</i>
Within one year	-	3	-	3
Between one and five years	1	-	1	3
After five years	30	-	24	-
	31	3	25	6

Mitchells & Butlers Retail Limited

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 24 September 2011

18. FINANCIAL COMMITMENTS (CONTINUED)

Capital commitments

	<i>2011</i>	<i>2010</i>
	<i>£m</i>	<i>£m</i>
Future capital expenditure contracted for, but not provided for, in the financial statements	24	20

19. 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.

20. CONTINGENT LIABILITIES

Pursuant to the securitisation of the business of Mitchells & Butlers Retail Limited on 13 November 2003, the Company is jointly and severally liable with various other companies within the Mitchells & Butlers 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, after amortisation, of £1,092m (2010: £1,105m) from floating rate interest payable to fixed rate interest payable. At the year end these had a fair value of £(280)m (2010: £(198)m).

21. ULTIMATE PARENT UNDERTAKING

Mitchells & Butlers plc is the ultimate parent undertaking and controlling party of the Company. The immediate parent undertaking of the Company is Mitchells & Butlers Retail Holdings Limited. Copies of the Group consolidated financial statements of Mitchells & Butlers plc, which is the only Group into which this Company is consolidated, are available online at 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.