Mitchells & Butlers Retail Limited

Unaudited Semi-Annual Financial Statements

For the 28 weeks ended 9 April 2016

Registered Number: 24542

INCOME STATEMENT
For the 28 weeks ended 9 April 2016

	Notes	***28 weeks ended 9 April 2016 £m***	***28 weeks ended 11 April 2015 £m***	***52 weeks ended 26 September 2015 £m***
REVENUE		**849**	865	1,627
Operating costs*		**(714)**	(732)	(1,384)
Profit arising on property disposals**		**-**	-	4
OPERATING PROFIT	2	**135**	133	247
Finance revenue		**-**	-	1
Finance costs	3	**(67)**	(70)	(130)
PROFIT BEFORE TAXATION		**68**	63	118
Tax	4	**(19)**	(11)	(13)
PROFIT FOR THE PERIOD		**49**	52	105

All turnover and costs are derived from continuing operations.

* 52 weeks ended 26 September 2015 includes an exceptional impairment charge in respect of tangible fixed assets of £30m.

** For the 52 weeks ended 26 September 2015, the profit represents the release of an accrual for costs in relation to the disposal of properties in prior periods.

STATEMENT OF COMPREHENSIVE INCOME
For the 28 weeks ended 9 April 2016

	Notes	28 weeks ended 9 April 2016 £m	28 weeks ended 11 April 2015 £m	52 weeks ended 26 September 2015 £m
PROFIT FOR THE PERIOD		**49**	52	105
Items that will not be reclassified subsequently to profit or loss:				
Gains on property valuation		**-**	-	9
Tax relating to items not reclassified	4	**26**	-	4
		26	-	13
Items that may be reclassified subsequently to profit or loss:				
Cash flow hedges:				
-Losses arising during the period		**(69)**	(115)	(100)
-Reclassification adjustments for items included in profit or loss		**22**	22	45
Tax relating to items that may be reclassified	4	**2**	19	11
		(45)	(74)	(44)
OTHER COMPREHENSIVE LOSS AFTER TAX		**(19)**	(74)	(31)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		**30**	(22)	74

BALANCE SHEET
At 9 April 2016

	Notes	9 April 2016 £m	11 April 2015 £m	26 September 2015 £m
NON CURRENT ASSETS				
Intangible assets		**2**	2	2
Property, plant and equipment	6	**3,597**	3,607	3,585
Investments in subsidiaries		**21**	21	21
Deferred tax asset		**62**	67	59
Lease premiums		**1**	1	1
TOTAL NON CURRENT ASSETS		**3,683**	3,698	3,668
CURRENT ASSETS				
Inventories		**19**	19	18
Trade and other receivables	7	**1,660**	1,671	1,666
Cash and cash equivalents		**91**	90	108
TOTAL CURRENT ASSETS		**1,770**	1,780	1,792
TOTAL ASSETS		**5,453**	5,478	5,460
CURRENT LIABILITIES				
Trade and other payables	8	**(231)**	(228)	(228)
Current tax liabilities		**(16)**	-	-
Borrowings	9	**(72)**	(63)	(66)
Derivative financial instruments	10	**(43)**	(44)	(43)
TOTAL CURRENT LIABILITIES		**(362)**	(335)	(337)
NON CURRENT LIABILITIES				
Borrowings	9	**(1,907)**	(1,979)	(1,940)
Derivative financial instruments	10	**(300)**	(289)	(252)
Deferred tax liabilities		**(274)**	(313)	(310)
Long-term provisions		**(3)**	(6)	(4)
TOTAL NON CURRENT LIABILITIES		**(2,484)**	(2,587)	(2,506)
TOTAL LIABILITIES		**(2,846)**	(2,922)	(2,843)
NET ASSETS		**2,607**	2,556	2,617
EQUITY				
Called up share capital		**4**	4	4
Share premium account		**1,561**	1,561	1,561
Hedging reserve		**(281)**	(266)	(236)
Revaluation reserve		**1,061**	1,033	1,040
Retained earnings		**262**	224	248
TOTAL EQUITY		**2,607**	2,556	2,617

STATEMENT OF CHANGES IN EQUITY
For the 28 weeks ended 9 April 2016

	Share capital £m	*Share premium £m*	*Hedging reserve £m*	*Revaluation reserve £m*	*Retained earnings £m*	*Total £m*
At 27 September 2014	**4**	**1,561**	**(192)**	**1,033**	**172**	**2,578**
Profit for the period	-	-	-	-	52	52
Other comprehensive income/(expense)	-	-	(74)	-	-	(74)
Total comprehensive income/(expense)	**-**	**-**	(74)	-	52	(22)
At 11 April 2015	**4**	**1,561**	**(266)**	**1,033**	**224**	**2,556**
Profit for the period	-	-	-	-	53	53
Other comprehensive income/(expense)	-	-	30	7	6	43
Total comprehensive income/(expense)	-	-	30	7	59	96
Dividends	-	-	-	-	(35)	(35)
At 26 September 2015	**4**	**1,561**	**(236)**	**1,040**	**248**	**2,617**
Profit for the period	-	-	-	-	49	49
Other comprehensive income/(expense)	-	-	(45)	21	5	(19)
Total comprehensive income/(expense)	-	-	**(45)**	**21**	**54**	**30**
Dividends	-	-	-	-	(40)	(40)
At 9 April 2016	**4**	**1,561**	**(281)**	**1,061**	**262**	**2,607**

1. BASIS OF PREPARATION

Mitchells & Butlers Retail Limited ('the Company') is a subsidiary company of Mitchells & Butlers plc. Mitchells & Butlers plc, along with its subsidiaries, form the Mitchells & Butlers group of companies ('the Group').

The Company meets the definition of a qualifying entity under FRS 100 Application of Financial Reporting Requirements issued by the Financial Reporting Council. Accordingly, in the period the Company has undergone transition from reporting under UK Generally Accepted Accounting Principles (UK GAAP) to FRS 101 as issued by the Financial Reporting Council. These financial statements have therefore been prepared in accordance with FRS 101 Reduced Disclosure Framework as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions.

The financial information for the 52 weeks ended 26 September 2015 has been extracted from the Company's published financial statements for that period, which contain an unqualified audit report and which have been filed with the Registrar of Companies and did not include an emphasis of matter reference, or any statement required under Section 498(2) or (3) of the Companies Act 2006. The financial information for the 52 weeks ended 26 September 2015 and for the 28 weeks ended 11 April 2015 has been restated on transition to FRS 101 as explained in note 12.

The periods ended 9 April 2016 and 11 April 2015 are regarded as distinct financial periods for accounting purposes; income and costs are recognised in the profit and loss account as they arise; tax is calculated on the basis of the expected effective tax rate for the full year.

These semi-annual financial statements have been prepared in order to meet the financial reporting requirements included in the Agreement. A reconciliation of information contained in these financial statements to a separately issued Interim Investor Report is attached as a supplementary schedule to these accounts.

The semi-annual financial statements do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006.

2. OPERATING PROFIT

	28 weeks ended 9 April 2016 £m	*28 weeks ended 11 April 2015 £m*	*52 weeks ended 26 September 2015 £m*
EBITDA	**183**	181	361
Depreciation and amortisation	**(48)**	(48)	(88)
Movement in the valuation of the property portfolio*	**-**	-	(30)
Profit arising on property disposals	**-**	-	4
Operating Profit	**135**	133	247

* 52 weeks ended 26 September 2015 includes a movement of £30m in the valuation of the property portfolio, comprising £2m of impairment recognised on short leasehold and unlicensed properties where their carrying values exceed their recoverable amount and a £28m charge arising from the Company's annual revaluation of its pub estate.

3. FINANCE COSTS

	28 weeks ended 9 April 2016 £m	*28 weeks ended 11 April 2015 £m*	*52 weeks ended 26 September 2015 £m*
Interest on borrowings from Mitchells & Butlers Finance plc	**(67)**	(69)	(129)
Other interest payable	**-**	(1)	(1)
	(67)	(70)	(130)

4. TAXATION

Taxation – income statement	*28 weeks ended 9 April 2016 £m*	*28 weeks ended 11 April 2015 £m*	*52 weeks ended 26 September 2015 £m*
Current tax:			
- UK corporation tax	**(13)**	(12)	(24)
- Prior period adjustments	**(20)**	-	6
- Group relief received	**3**	-	4
	(30)	(12)	(14)
Deferred tax			
- Origination and reversal of temporary differences	**2**	1	1
- Adjustments in respect of prior periods - other	**2**	-	-
- Change in tax rate	**7**	-	-
	(19)	(11)	(13)

Taxation - other comprehensive income	*28 weeks ended 9 April 2016 £m*	*28 weeks ended 11 April 2015 £m*	*52 weeks ended 26 September 2015 £m*
Deferred tax:			
Items that will not be reclassified subsequently to profit or loss:			
- Unrealised gains due to revaluations – revaluation reserve	**21**	-	(2)
- Unrealised gains due to revaluations – retained earnings	**5**	-	6
	26	-	4
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges:			
-Losses arising during the period	**3**	23	20
-Reclassification adjustments for items included in profit or loss	**(1)**	(4)	(9)
	2	19	11
Total tax credit recognised in other comprehensive income	**28**	19	15

4. TAXATION (CONTINUED)

Tax has been calculated using an estimated annual effective tax rate of 20.0% (2015 28 weeks, 20.5%; 52 weeks, 20.5%) on profit before tax.

The Finance (No.2) Act 2015 reduces the main rate of corporation tax from 20% to 19% from 1 April 2017, with a further reduction to 18% from 1 April 2020. The effect of these changes has been reflected in the closing deferred tax balance at 9 April 2016.

5. DIVIDENDS

During the period, the Company has paid dividends of £40m (2015 28 weeks £nil, 52 weeks £35m) and declared dividends of £nil (11 April 2015 £nil, 26 September 2015 £nil). Dividend payments are made by the Company to its immediate parent undertaking, Mitchells & Butlers Retail Holdings Limited, as permitted by the terms of the securitisation.

6. PROPERTY, PLANT AND EQUIPMENT

	9 April 2016 £m	***11 April 2015 £m***	***26 September 2015 £m***
At beginning of period	**3,585**	3,594	3,594
Additions	**61**	62	100
Revaluation	**-**	-	(21)
Disposals	**(1)**	(1)	(1)
Depreciation provided during the period	**(48)**	(48)	(87)
At end of period	**3,597**	3,607	3,585

7. TRADE AND OTHER RECEIVABLES

	9 April 2016 £m	***11 April 2015 £m***	***26 September 2015 £m***
Loan to Mitchells & Butlers Retail Holdings Limited	**1,362**	1,362	1,362
Loan to Mitchells & Butlers plc	**282**	282	282
Amounts owed by group undertakings	**2**	3	11
Trade receivables	**1**	1	1
Prepayments	**12**	15	3
Other receivables	**1**	3	1
Corporation tax	**-**	5	6
	1,660	1,671	1,666

The loans to Mitchells & Butlers Retail Holdings Limited and Mitchells & Butlers plc are non-interest bearing.

8. TRADE AND OTHER PAYABLES

	9 April 2016 £m	*11 April 2015 £m*	*26 September 2015 £m*
Amounts owed to group undertakings	**111**	111	102
Other taxation and social security	**50**	55	50
Other payables	**19**	17	23
Accrued charges	**51**	45	53
	231	228	228

9. BORROWINGS

On 13 November 2003, the Group refinanced its debt by raising £1,900m through a securitisation of the majority of its UK pubs and restaurants whereby Mitchells & Butlers Finance plc, a fellow subsidiary within the Group, issued £1,900m of secured loan notes to third party investors and on-lent the proceeds to the Company under an Issuer/Borrower Facility Agreement dated 13 November 2003 (the "Agreement"). On 15 September 2006, Mitchells & Butlers Finance plc issued an incremental £655m of secured loan notes to third party investors, in addition to refinancing £450m of Floating Rate Notes and on-lent the proceeds to the Company under the Agreement as amended and restated.

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 £200m due 2030
- Class A2 5.584% Term Advance for £550m due 2030
- Class A3N floating rate Term Advance for £250m due 2030
- Class B1 5.975% Term Advance for £350m due 2025
- Class B2 6.023% Term Advance for £350m due 2030
- Class C1 6.479% Term Advance for £200m due 2032

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

- Class A4 floating rate Term Advance for £170m due 2030
- Class AB floating rate Term Advance for £325m due 2033
- Class C2 floating rate Term Advance for £50m due 2034
- Class D1 floating rate Term Advance for £110m due 2036

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

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

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

9. BORROWINGS (CONTINUED)

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

	9 April 2016 £m	*11 April 2015 £m*	*26 September 2015 £m*
Principal outstanding at beginning of the period	**2,010**	2,071	2,071
Principal repaid during the period	**(32)**	(30)	(61)
Principal outstanding at end of period	**1,978**	2,041	2,010
Deferred issue costs	**(7)**	(8)	(8)
Accrued interest	**8**	9	4
Carrying value at end of period	**1,979**	2,042	2,006
Maturity profile:			
Amounts falling due within one year	**72**	63	66
Amounts falling due after more than one year	**1,907**	1,979	1,940
	1,979	2,042	2,006

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

The securitisation is governed by various covenants, warranties and events of default, many of which apply to the Company, being the Group's main operating subsidiary. These include covenants regarding the maintenance and disposal of securitised properties and restrictions on its ability to move cash, by way of dividends for example, to other group companies. At 9 April 2016, the Company had cash and cash equivalents of £91m (11 April 2015 £90m, 26 September 2015 £108m), which were governed by the covenants associated with the securitisation. Of this amount £39m (11 April 2015 £37m, 26 September 2015 £36m), representing disposal proceeds, was held on deposit in an account over which there are a number of restrictions (restricted cash). The use of this cash requires the approval of the securitisation trustee and may only be used for certain specified purposes such as capital enhancement expenditure and business acquisitions.

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

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

10. FINANCIAL INSTRUMENTS

Derivative Financial Instruments

The fair value of the derivative financial instruments are disclosed below:

	Total Liabilities		
	Less than one year	***More than one year***	***Total***
9 April 2016	***£m***	***£m***	***£m***
Cash flow hedges			
Inter-group interest rate swaps	**43**	**300**	**343**

	Total Liabilities		
	Less than one year	***More than one year***	***Total***
11 April 2015	*£m*	*£m*	*£m*
Cash flow hedges			
Inter-group interest rate swaps	44	289	333

	Total Liabilities		
	Less than one year	***More than one year***	***Total***
26 September 2015	*£m*	*£m*	*£m*
Cash flow hedges			
Inter-group interest rate swaps	43	252	295

11. 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 undertakings.

12. TRANSITION TO FRS 101

As stated in note 1, these are the Company's first semi-annual financial statements prepared in accordance with FRS 101.

The accounting policies have been applied consistently in preparing the semi-annual financial statements for the period ending 9 April 2016, the comparative information presented for the period ending 11 April 2015 and 26 September 2015 and in the preparation of an opening FRS 101 balance sheet at 28 September 2014 (the Company's date of transition).

In preparing its FRS 101 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 101 has affected the Company's financial position and financial performance is set out in the following tables and accompanying notes.

Reconciliation of equity

	Note	*At 28 September 2014 £'m*	*At 11 April 2015 £'m*	*At 26 September 2015 £'m*
Equity reported under previous UK GAAP		3,037	3,089	3,116
Adjustments to equity on transition to FRS 101				
Recognition of intercompany interest rate swaps	a	(240)	(333)	(295)
Recognition of deferred tax on interest rate swaps	b	48	67	59
Recognition of deferred tax on revaluations	c	(267)	(267)	(263)
Equity reported under FRS 101		**2,578**	**2,556**	**2,617**

a) Recognition on balance sheet of the intercompany derivative contracts, and corresponding hedge accounting entries.

b) Recognition of deferred tax on the intercompany derivative contracts that have been recognised on balance sheet at transition.

c) Recognition of deferred tax on property revaluations, unrealised gains and rolled over gains.

12. TRANSITION TO FRS 101 (CONTINUED)

Reconciliation of total comprehensive income

	Note	*26 weeks ended 11 April 2015*	*52 weeks ended 26 September 2015*
		£'m	*£'m*
Total comprehensive income for the financial period under previous UK GAAP		52	114
Adjustments on transition to FRS 101			
Recognition of intercompany interest rate swaps	a	(93)	(55)
Recognition of deferred tax on interest rate swaps	b	19	11
Recognition of deferred tax on revaluations	c	-	4
Total comprehensive income for the financial period under FRS 101		**(22)**	**74**

a) Recognition on balance sheet of the intercompany derivative contracts, and corresponding hedge accounting entries.

b) Recognition of deferred tax on the intercompany derivative contracts that have been recognised on balance sheet at transition.

c) Recognition of deferred tax on property revaluations, unrealised gains and rolled over gains.

Balance sheet impact

The balance sheet has been restated to reflect the following:

a) recognition of intercompany derivative contracts has resulted in the recognition of derivative financial liabilities of £333m at 11 April 2015 and £295m at 26 September 2015;

b) recognition of deferred tax balances in relation to intercompany interest rate swaps has resulted in the recognition of a deferred tax asset of £67m at 11 April 2015 and £59m at 26 September 2015;

c) recognition of deferred tax balances in relation to property valuations, unrealised gains and rolled over gains has resulted in the recognition of an additional deferred tax liability of £267m at 11 April 2015 and £263m at 26 September 2015; and

c) restatement of computer software to intangible assets from property, plant and equipment. The impact of this is an increase in intangible assets, and corresponding decrease in property, plant and equipment of £2m at 11 April 2015 and £2m at 26 September 2015.

d) restatement of lease premiums from property, plant and equipment. The impact of this is an increase in lease premiums and a corresponding decrease in property, plant and equipment of £1m at 11 April 2015 and £1m at 26 September 2015.

SUPPLEMENTARY INFORMATION – RECONCILIATIONS TO THE INTERIM INVESTOR REPORT: 9 APRIL 2016

	Q1 Investor Report £m	***Q2 Investor Report £m***	***Q1 + Q2 Interim Investor Report £m***	***Semi-Annual Financial Statements £m***
Turnover	491.3	358.0	849.3	**849**
Cost of sales	(413.7)	(300.5)	(714.2)	**(714)**
Operating profit	77.6	57.5	135.1	**135**
Depreciation	27.1	20.9	48.0	**48**
EBITDA	104.7	78.4	183.1	**183**