

Mitchells & Butlers Retail Limited

Annual Report and Financial Statements

for the 53 weeks ended 30 September 2023

Mitchells & Butlers Retail Limited

Strategic Report for the 53 weeks ended 30 September 2023

Mitchells & Butlers Retail Limited ("the Company") is a private company limited by shares and is a subsidiary company of Mitchells & Butlers plc. Mitchells & Butlers plc, along with its subsidiaries, form the Mitchells and Butlers group of companies ("the Group"). The address of the Company's registered office is shown in note 24.

The Directors present their Strategic Report for the 53 weeks ended 30 September 2023. The comparative period is for the 52 weeks ended 24 September 2022.

Business Model

Fair review of the business

The Company is a UK operator of pubs and restaurants with an estate of 1,256 managed outlets and 63 leased outlets at 30 September 2023 (2022 1,262 managed outlets and 62 leased outlets).

Revenue for the period was £1,848m (2022 £1,642m) with profit for the period before taxation of £22m (2022 profit of £2m). Taxation credited against the profit for the period was £3m (2022 £10m credited against the profit) leaving a profit after tax of £25m (2022 profit of £12m). The Company was in a net asset position of £3,191m (2022 £3,211m) at the period end.

Sales across FY23 have increased, driven by strong sales performance across all of our brands. We are pleased with our operating profit performance, which reflects a strong improvement in profitability despite the considerable cost headwinds in the year and Government support in the prior period that has not been replicated in the current year.

We made a strong start to the year with sales growth primarily driven by drink sales growth. As expected, growth in the first quarter was significant, due principally to last year being impacted by the emergence of the Omicron variant which resulted in a downturn in activity across much of the festive season.

Sales remained resilient through the second quarter with strong performances on key trading dates and from our drink-led, city centre pubs, especially in London, that are benefitting from a further return to office working and tourists visiting.

In the second half, sales performance remained strong. Despite a wetter and cooler summer than the prior year, sales grew across all brands supported by sustained growth in both food and drink volumes.

People

Our fantastic team of people are central to the performance of our business, delivering the all-important experiences guests have with us. We are delighted that our staff turnover reduced this year to pre-pandemic stability. Lower turnover has a positive impact on guest experience and also holds commercial benefits due to the cost of training new team members. We are also delighted that our team engagement scores have continued to improve over the course of the year and are now at record highs.

The recent employment environment has been challenging, and our centralised HR function has been focused on attracting the best talent, enhancing performance through our development programmes and retaining team through progression opportunities. During the year most of our general manager appointments were internal, which reflects the strength of the pipeline of talent we have in the organisation. Our apprentice scheme forms part of our training and progression opportunity, and we believe it will provide excellent future talent to our organisation. Given the importance of developing and retaining chefs, the Group continue to grow our culinary capability via our Chefs' Academy.

Market supply

The uncertainty and cost challenges the industry has faced has had an unavoidable impact on market supply with a 3.4% net decline in pubs and restaurants in the year to September 2023 and a 13.4% net decline since the start of the Covid-19 pandemic in March 2020 (CGA Outlet Index September 2023). Independent and tenanted businesses have made up the substantial majority of the net closures. Given the strength of our estate and portfolio of brands, we believe that we are well placed to continue to benefit from these changes in the competitive landscape.

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Strategic Report for the 53 weeks ended 30 September 2023 (continued)

Business Model (continued)

Our strategic priorities

The fundamental strengths of our business align with those of the Group and provide a platform for the future. As such the description provided below of our strategic priorities and associated performance metrics refer to those of the Group. We have well recognised and diversified brands across a broad range of consumer occasions, demographics and locations, and an experienced and proven management team with the focus to build on the momentum previously gained. We remain focused on the strategic pillars which began to turn the business's performance around in 2018, remained at the heart of the business through pandemic and continue to guide our recovery; build a more balance business; instil a commercial culture; and drive an innovation agenda.

Our Ignite programme of work remains at the core of our long-term value creation plans. The programme at any point consists of a rolling total of around 40 initiatives, with new workstreams introduced in the year alongside a number already implemented in the business. Given the cost headwinds faced in the year we have been particularly focused on initiatives which enhance efficiency and productivity through enhancements such as improved labour scheduling, cost mitigating procurement strategies and energy consumption reduction. We continued to focus on energy reduction projects in the year, which help to offset utility cost headwinds as well as contribute towards our sustainability aims, including the trial of internet-connected control devices to lower electricity and gas consumption.

We have also continued to focus on sales driving initiatives, ensuring that all General Managers are equipped with the knowledge and tools to drive sales in their businesses. Each of our General Managers attended a workshop designed to enhance these skills as well as focusing on improving guest metrics by delivering great experiences. We have also increased our capacity at peak times by opening further bookable covers across bars and outside areas. The benefit of these workstreams is reflected in the sales performance across all of our brands, supported by volume growth, as well as guest scores of over 4.1 in every one of our brands.

We remain committed to accelerating our digital strategy, which presents an opportunity for more personalised guest experiences. Our strategy focuses on building the correct organisational capabilities to allow for quick activation of new digital services as consumer behaviours change, allowing us to be at or near the forefront of digital advances in the sector. We have made significant progress in our digital services in recent years, for example our digital order at table facility, our streamlined online booking experience, and the development of our own channel delivery capability seeking to drive sales and protect margins.

Our capital programme continues to deliver value by improving the competitive position of our pubs and restaurants within their local markets. We are committed to re-establishing a seven-year investment cycle, which was interrupted by Covid-19. We are continuing to see strong performances from our investment projects.

Outlook

The strength of our sales performance continues to be broad based across all brands. Group volumes continue to be in growth which gives us confidence that further opportunity remains, although we remain very mindful of the potential implications of the cost-of-living challenge facing guests.

Cost headwinds presented a significant challenge in FY23, but we are now seeing clear evidence that these are starting to abate. A reduction in energy prices and slowing food inflation, in particular, means that anticipated cost headwinds for the year ahead should reduce significantly.

We are working hard to continue to drive sales growth above the market, and to both leverage our buying power and to further enhance the efficiency of our business. This should allow us to now start to rebuild margins back towards pre-pandemic levels.

Key Performance Indicators

The performance of the Company is monitored as part of the wider Group. These performance indicators are discussed in the Annual Report and Accounts 2023 of Mitchells & Butlers plc and include staff turnover, guest promotor score, same outlet like-for-like sales growth, incremental return on expansionary capital and adjusted operating profit.

Further explanation of the performance and reasons for the movements can be found in the Annual Report and Accounts 2023 of Mitchells & Butlers plc.

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Strategic Report for the 53 weeks ended 30 September 2023 (continued)

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 2023 of Mitchells & Butlers plc. Decisions on how to monitor and mitigate these risks are made for the Group as a whole. Risks relevant to the Company include, but are not restricted to the following:

- **Market risks**

Declining sales

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

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

Consumer and market insight

If Mitchells & Butlers fails to manage and develop its brands in line with consumer needs and market trends due to failure to obtain or use sufficient insight in a timely manner, this may lead to a decline in sales and therefore profitability.

To mitigate this risk, the Group reviews guest feedback submitted in online guest satisfaction surveys. This feedback together with the results of research studies, is monitored and evaluated by a dedicated guest insight team to ensure that the Group's brands remain relevant to guests. The Group aims to reduce guest complaints by improving the local management of social media responses (e.g. TripAdvisor responses). In addition, the Group operates a consumer and market insight led process to innovate and develop new brands.

Pricing and market changes

External influences, such as changes in the general economic climate or competitor activity, could have a detrimental effect on consumers' spending patterns. In responding to these changes, there is a risk that the Group may not apply price changes intelligently, due to a lack of appreciation of market sensitivities and elasticities.

The Group performs regular monitoring and scrutiny of sales reporting in order to identify adverse trends sufficiently early in order to take remedial action. Each brand also has its own pricing strategy and price promotions are regularly monitored.

- **Operational risks**

People planning and development

The Group has a strong guest focus, and as such it is important that it is able to attract, retain, develop and motivate the best people with the right capabilities. There is a risk that without the right people our customer service levels would be affected. The external recruitment activity over the previous year has been challenging due to the lack of quality candidates being available. A further potential risk is the image of hospitality to potential employees, given the recent pandemic impact.

There is a continued risk of a lack of quality of internal/external pipeline for key roles resulting in open vacancies or poor-quality appointments, leading to poor performance, reduced quality of service and loss of sales. There is a previous lack of consistent skills training affecting guest satisfaction and employee engagement and retention. Kitchen Manager continues to be the role with the highest concern, with lower attraction and higher attrition rates particularly impacted by the decline in non-UK applicants, decrease in internal progression and increase in turnover which is influencing the overall risk rating.

The Group makes significant investment in training to ensure that its people have the right skills to perform their jobs successfully. Furthermore, an employee survey is conducted annually to establish employee satisfaction and engagement with the results of this being compared with other companies, as well as previous surveys. Where appropriate, changes in working practices are made in response to the findings of these surveys.

Remuneration packages are benchmarked to ensure that they remain competitive, and a talent review process is used to provide structured succession planning.

Mitchells & Butlers Retail Limited

Strategic Report for the 53 weeks ended 30 September 2023 (continued)

- **Operational risks (continued)**

People planning and development (continued)

The apprenticeship programme will assist in mitigating against the increasing risk in relation to non-UK workers, and a new talent management system has been sourced and is planned to be implemented in FY 2023.

Business continuity and crisis management

The Group relies on its food and drink supply chain and the key IT systems underlying the business to serve its guests efficiently and effectively. Supply chain interruption or IT system failure may restrict sales or reduce operational effectiveness.

The Group has in place crisis and continuity plans that are tested and refreshed regularly. We have assessed risks associated with remote working and are confident that this is suitably controlled.

Information security and disaster recovery

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

A detailed external review of cyber security processes is performed on a regular basis in order to highlight any gaps and address any challenges. In order to mitigate these risks, the Group has a number of controls in place including; a cross-functional Information Security Steering Group; Group Assurance IT controls reviews; regular revision of appropriate cyber security governance policies and procedures; and systems controls to ensure GDPR compliance.

Food Supply Chain Safety

Malicious or accidental contamination in the supply chain can lead to food products being unfit for human consumption or potentially dangerous to consume. This leads to restrictions in supply which in turn may cause an increase in cost of goods and/or reduced sales due to consumer fears and/or physical harm to guests or employees. Risks facing the food supply chain safety are regarded as stable.

The Group uses a number of technical partners to help prevent contamination. All food products are risk rated using standard industry definitions and take account of the way products are used within our kitchens. Suppliers are also risk rated according to their products, with each food supplier being audited annually in respect of safety and additionally in response to any serious food safety complaint or incident.

A robust response has been taken to manage allergens and the associated data within the menu cycle coupled with a continuous review in place to ensure controls remain appropriate.

Cost of goods price increases

The cost of drink and food items purchased for resale may increase due to changes in demand, legislation, exchange rates and/or production costs and/or uncertainty of supply. Any increase could lead to a decline in profitability.

Following the War in Ukraine, there is increased cost pressure on food and utility costs for the Group. Increases in global demand and uncertainty of supply in producing nations can have a significant impact on the cost base, consequently impacting profitability.

The overall risk of cost inflation is easing as a result of a number of factors, including; easing UK inflation, easing utility costs, improved labour and raw material availability, and the annualisation of the impact of the war in Ukraine. However, mitigation is sought where possible through a change of supplier, products or specification and an ongoing review and monitoring of energy cost management.

Overall, some mitigation of cost increases occurs as the Group leverages its scale and competitive advantage and collaborates with suppliers to increase efficiencies within the supply chain. Regular reviews of retail and procurement strategies are also in place, supported by regular reporting of current and forecast inflation rates. The Group also completes regular range reviews of retail items to ensure the supply base is rationalised and consumer needs are met.

For utility costs, there is an ongoing review of energy purchasing policy (covering short-term and medium-term energy purchasing) and energy cost price and forecast reports are monitored. Energy usage at outlets is being monitored, with trials of solar panels to reduce reliance on the grid and energy ambassadors completing energy audits in every business to identify where efficiency savings could be made.

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Strategic Report for the 53 weeks ended 30 September 2023 (continued)

- **Operational risks (continued)**

Wage Cost Inflation

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

The Group continues to review the risks associated with complying with National Living Wage. Reviews are undertaken at a strategic level and seek to ensure that appropriate mitigating actions are in place, some of which are in relation to how the Group carefully manages productivity and efficiency across the estate.

Introduction of carbon taxes and levies

This risk represents the impact on operating costs of the business both directly through taxation and indirectly through higher input costs which would result from the introduction of taxation and levies attributed to greenhouse gas emissions. A qualitative assessment has identified this risk as both high in impact and likelihood over the short to medium term. The introduction of a form of carbon taxation is likely to be introduced as pressure mounts for progress to be made against the Government ambition to achieve Net Zero by 2050.

Mitchells & Butlers is a member of UK Hospitality Sustainability Committee which enables us to have foresight over potential policy changes impacting the organisation. We have developed a Net Zero strategy with a target date of 2040. We have a number of initiatives identified designed to reduce our emissions in line with our Net Zero roadmap. The detailed plan for reduction will help to mitigate an element of potential cost, and a target date ahead of Government ambition will help to position the organisation ahead of the market average.

Increased severity of extreme weather events

This acute physical risk represents the risk to both revenue and the supply chain of increased severe events. Revenue would be impacted through the interruption to trade caused by both extremely hot weather and adverse weather such as rain and snow, and possible site closure as a result of flooding. In addition, the availability of products in the supply chain, in particular agricultural produce, could be impacted by severe weather having an effect on product availability and input prices.

Following a qualitative assessment, which included a high-level review of previous interruption to trade resulting from extreme weather (as well as scientific forecasts as to the likely increase in extreme weather events), the overall risk is assessed as stable.

The weather has a high level of impact on trading levels across the estate and therefore monitoring weather forecasts in relation to expected trading levels is a normal part of the financial planning of the business. This monitoring activity will enable us to identify when patterns of increased instances of extreme weather events begin to develop.

In relation to site closure due to damage to buildings, such as during flooding, we have insurance in place to recover the lost trade and required repairs. Our experience during closure has meant that we have developed strategies to close sites on short notice, such that in the instance of extreme weather significantly impacting trade we could close sites in order to mitigate some of the financial losses which we would be exposed to.

To manage the risk associated with our supply chain, we monitor and communicate with our suppliers closely giving us foresight over potential supply issues. We also have sufficient breadth of products and dishes across our brands such that supply issues with one product could be mitigated through switching to a substitute.

- **Finance risks**

Borrowing covenants

The Company forms part of the Mitchells & Butlers Group, which is funded by both secured and unsecured financing, with both the secured and unsecured estate governed by a number of covenants, with further warranties and events of default applicable to the secured estate. Further detail is set out in the Mitchells & Butlers plc Annual Report and Accounts 2023. There are risks that borrowing covenants in either of the secured or unsecured groups are breached which impact the ability of the Company to recover amounts due from other members of the Group. This could arise as a result of circumstances such as:

- i. A change in the economic climate leading to reduced cash inflows or profits; or
- ii. A material reduction in the valuation of the property portfolio.

Following the Covid period, when covenant levels tested were either waived or reduced, the securitised covenants are now back at documented levels. During the period the previous £150m unsecured facility was replaced with a new unsecured facility of £200m to July 2026, which includes a reduction in the fixed cover charge covenant test from 1.5x to 1.25x.

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Strategic Report for the 53 weeks ended 30 September 2023 (continued)

- **Finance risks (continued)**

Borrowing covenants (continued)

As documented in the Going Concern note, the Directors have assessed a base case forecast and a severe but plausible downside scenario with headroom against all covenants and sufficient liquidity. The material uncertainty that existed in the prior period has been removed and therefore the risk is improving.

- **Regulatory risks**

Failure to operate safely and legally

A major health and safety failure could lead to illness, injury or loss of life, and could cause significant damage to the Group's or a brand's reputation. Overall, the risk continues to be stable. In particular, allergen related incidents and near misses have stabilised.

The Group maintains a robust programme of health and safety checks, both within its restaurants and pubs and throughout the supply chain. A number of technical partners are used, including food technologists, microbiologists and allergen 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.

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Strategic Report for the 53 weeks ended 30 September 2023 (continued)

Confirmation of Directors' duties

Section 172 of the Companies Act 2006 (**s.172**) requires the Directors to act in the way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard, amongst other matters, to the following considerations:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, guests and others;
- the impact of the Company's operations on the community and environment;
- the desirability for high standards of business conduct; and
- the need to act fairly as between members of the Company.

As part of their induction, the Directors are briefed on their duties including those under s.172, and they can access professional advice on these either from the Group Company Secretary or, if they judge it necessary, from independent advisers for the effective discharge of their duties. In addition, the board of directors of the Company's ultimate parent undertaking, Mitchells & Butlers plc, provides supervision and guidance to the Directors in relation to their duties under s.172, particularly with respect to corporate governance and business strategies. Consequently, each Director understands his or her duties and the need to act in a way that, in their judgement, promotes the success of the Company for the benefit of all stakeholders, with due regard to the varying interests of different stakeholder groups.

The Company is part of the Mitchells & Butlers plc Group. The Mitchells & Butlers plc's board of directors is responsible for setting the strategy and values of the Group as a whole, which are set out in the Mitchells & Butlers plc Annual Report and Accounts 2023. The Mitchells & Butlers plc's board of directors oversees a robust and transparent process which provides an appropriate level of direction and support to the Group in the identification, assessment and management of risks across all areas of its business which have the potential to damage the Group's financial position, shareholder value, responsibilities to its staff and guests, reputation and relationships with other key stakeholders, which includes employees. The Group's culture is embodied in a set of PRIDE values of Passion, Respect, Innovation, Drive and Engagement which underpin its key priorities of People, Practices, Profits and Guests. This is also set at Group level but covers all individuals at any level within the Group, including the Directors. At Group level, established communication cascade and mechanisms are in place for employees, suppliers and guests and engagement with employees is discussed on page 65 of the Mitchells & Butlers plc Directors' Report, which sets out the various platforms for employee communications, facilitated by Dave Coplin, a non-executive Director who acts as the 'employee voice' for employees. High standards of business conduct are expected throughout the Group, in furtherance of which each member of the Group, including the Company, is expected to comply with the following Group policies, which are set out in the Mitchells & Butlers plc Annual Report and Accounts 2023:

- the Group's Code of Ethics (see pages 80 to 81 of the Corporate Governance Statement);
- the provisions of the Modern Slavery Act 2015 (which includes a Supplier Code of Conduct) (see page 66 of the Directors' Report); and
- the environmental impact of the Group's activities (see pages 36 to 40 of the Sustainability section of the Strategic Report).

There are also established communication mechanisms for employees, suppliers and guests which are implemented on a Group wide basis, as well as the review of each member of the Group's, including the Company's, business plans and targets as part of the wider Group.

Major matters considered at a Group level, by the Mitchells & Butlers plc Board during the year included the pressures faced by the UK consumer in the face of rising costs and interest rates, and the impact of unprecedented cost headwinds on the business and wider UK hospitality market. In considering these external factors, the Board looked not only at the position and prospects of the Company, but also took into consideration the wider Mitchells & Butlers Group as a whole. Other matters considered by the Board included the re-financing of the unsecured Revolving Credit Facility and the acquisition of the remaining 60% of 3Sixty Restaurants Limited. These business considerations affected the entire Group, including the Company, and in considering them Group-wide attention was required to be paid to the allocation of resources so that the interests of one stakeholder group were not prejudiced in relation to the others.

As is normal for listed companies, the Group delegates authority for day-to-day management of the Company to executives within the Group. Throughout FY 2023 the Board has, however, ensured it has given due care and consideration to the responsibilities, values and objectives outlined above and has supervised the business activities and prospects of the Company and made decisions relating to the Company's affairs accordingly. In particular, in carrying out these functions the Board has had regard to those stakeholders which it has identified as being of significant importance, namely those employees of the Group who are likely to be affected by the activities of the Company, suppliers to the Company or Group, and anyone else likely to be affected by the outcome of the relevant matter falling for consideration on a case-by-case basis.

Mitchells & Butlers Retail Limited

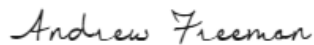
Strategic Report for the 53 weeks ended 30 September 2023 (continued)

Future Developments

The Company aims to deliver long-term sustainable value through organic growth. The strategy to achieve this goal has three core elements:

- Building a more balanced business to ensure exposure to the right market segments by having the correct trading brand or concept in each outlet, based on location, site characteristics and local demographics;
- Instil a more commercial culture by engaging our teams in delivering outstanding guest experiences and by acting quickly and decisively to remain competitive in our fast-changing marketplace; and
- Drive an innovation agenda, ensuring that our brands and formats remain fresh and relevant within their market segments, and by leveraging the increasing role that technology can play in improving guest experience.

Approved by the Board on 29 November 2023 and signed on its behalf by:



A D Freeman
Director

Mitchells & Butlers Retail Limited

Directors' Report for the 53 weeks ended 30 September 2023

The Directors present their report on the affairs of the Company, together with the financial statements and independent auditor's report, for the 53 weeks ended 30 September 2023. The comparative period is for the 52 weeks ended 24 September 2022.

Details of future developments can be found in the Strategic Report on page 8.

The Company's Directors pay due regard to the need to foster the Company's business relationships with suppliers, guests, and others.

Details of the Company's engagement process with various stakeholders and different tiers of suppliers, together with the effect of that regard on the principal decisions taken by the Company during the financial year are in line with those of the wider Mitchells and Butlers Group. Details of these processes are set out in the Strategic report on page 7.

Dividends

No dividends were paid during the period. The Directors are proposing a final dividend of £nil (2022 £nil).

Financial risk and treasury management

Details of the Company's policy on addressing risks and details about financial instruments are given in note 16. The financial risks faced by the Company and Group are identified and managed by the Group Treasury department.

Securitisation

Since November 2003, the Company has operated within the Mitchells & Butlers securitisation structure. Under this securitisation structure, the Company has borrowed £1,275m (2022 £1,389m) after amortisation, from Mitchells & Butlers Finance plc under an Issuer/Borrower Facility Agreement dated 13 November 2003, amended and restated on 15 September 2006. The borrowings (Term Advances) are secured on the Company's assets and future income streams therefrom. Mitchells & Butlers Finance plc is a fellow subsidiary within the Group and the issuer of secured loan notes to third party investors for the same amount.

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

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

Going Concern

The financial statements have been prepared on a going concern basis. A full assessment of the going concern statement has been provided in note 1. In addition, the Directors of Mitchells & Butlers plc, the ultimate parent undertaking, have stated that they will continue to make funds available to the Company to enable it to meet its debts as they fall due for the foreseeable future, being a period of at least twelve months from the date of approval of the balance sheet.

Mitchells & Butlers Retail Limited

Directors' Report for the 53 weeks ended 30 September 2023 (continued)

Statement of corporate governance arrangements

The Company is a private limited company which is part of the Mitchells & Butlers plc Group. The Board of Mitchells & Butlers plc is responsible for setting the strategy and values of the Group as a whole, which are set out in the Mitchells & Butlers plc Annual Report and Accounts 2023.

The Company has chosen not to report against the 2018 UK Corporate Governance Code, which is more appropriate for listed companies. The Directors are aware of the Wates Corporate Governance Principles for Large Private Companies, and while the Wates Principles have not formally been adopted by the Company, the Board feels that the existing company procedures are appropriate and are designed to ensure effective decision making to promote the Company's long-term success. The Wates Principles are set out below, together with examples of how the Company believes it already meets the requirements thereof.

Wates Principle 1 concerns purpose and leadership, where an effective board develops and promotes the purpose of a company and ensures that its values, strategy and culture align with that purpose. The purpose of the Company has been the implementation of the Group's broader strategy, business plan and vision, as set out in detail in on pages 30 to 31 of the Mitchells & Butlers plc Annual Report and Accounts 2023. This defines the Company's values and culture – its continued success and growth depends on the achieving the Group's long term strategic priorities and embodying its PRIDE values of Passion, Respect, Innovation, Drive and Engagement which underpin its key priorities of People, Practices, Profits and Guest. As such, the Company maintains an open and ongoing dialogue with Mitchells & Butlers plc and the wider Group. High standards of business conduct are expected throughout the Group, in furtherance of which the Board is expected to comply with various Group policies disclosed in the Mitchells & Butlers plc Annual Report and Accounts, including its Code of Ethics (see pages 80 to 81 of the Corporate Governance Statement), the Modern Slavery Act 2015 (including a Supplier Code of Conduct) (see pages 66 to 67 of the Directors' Report) and in relation to the its environmental impact (see pages 36 to 40 of the Strategic Report).

Wates Principle 2 concerns Board composition, where effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution, with the size of a board being guided by the scale and complexity of the company. The Directors consider the size and composition of the Board, which comprises directors with senior roles across the wider Group and the company secretary, to be appropriate and proportionate, since the Board members have a combination of financial, legal and commercial skills, collectively demonstrating a high-level understanding of the Company's business model and its impact on key stakeholders. All appointments to the Board are based on merit and take into account objective criteria such as diversity of skills, background, knowledge, international and industry experience, and gender, amongst many other factors. The Company is currently satisfied with the current composition of the Board in terms of gender balance.

Wates Principle 3 concerns Director responsibilities, where the Board and individual directors should have a clear understanding of their accountability and responsibilities, and the board's policies and procedures should support effective decision-making and independent challenge. Board meetings are held at a Group level to ensure the co-ordinated implementation of Group strategy across all group companies. The governance structure of Mitchells & Butlers plc, of which the Company is a subsidiary, ensures good governance is achieved through the areas highlighted in the s. 172 Companies Act disclosure on page 7, in particular the Group's Code of Ethics, with which all employees of the Group (including the Company) are expected to comply. Directors are briefed on their responsibilities, including duties under s.172 and can seek professional advice from the Group General Counsel and Company Secretary or, if they judge it necessary, from independent advisers for the effective discharge of their responsibilities. In addition, the directors of the Company's ultimate parent undertaking, Mitchells & Butlers plc, provide supervision and guidance to the Directors in relation to their duties under s. 172, particularly with respect to corporate governance and business strategies.

Prior to making decisions, the Company's Board considers whether their decisions will fall within the Group's delegations of authority to the Directors, who also have a responsibility to declare any conflict of interest at the beginning of each Board meeting pursuant to the requirements of its articles and the Companies Act 2006 and, should a conflict arise, any such Director may be prohibited from voting on that item.

Wates Principle 4 concerns Opportunity and risk, where a board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks. Oversight of risk by the Company is approached in the context of its status as a subsidiary of Mitchells & Butlers plc, whose board oversees a robust and transparent process which provides an appropriate level of direction and support to the Group in the identification, assessment and management of risks across all areas of its business which have the potential to damage the Group's financial position, shareholder value, responsibilities to its staff and guests, reputation and relationships with other key stakeholders. The principal risks to the Group are set out in the Strategic Report on page 41 of the Mitchells & Butlers plc Annual Report and Accounts 2023, which also set out risk mitigation strategies for the entire Group, including the Company. The Board regularly considers and is invested in identifying opportunities for more efficient ways of working throughout the wider Group on an ongoing basis.

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Directors' Report for the 53 weeks ended 30 September 2023 (continued)

Statement of corporate governance arrangements (continued)

Wates Principle 5 concerns Remuneration, where a board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company. Through the Group's human resources policies (which apply to the Company), the Directors understand the importance of attracting and recruiting individuals from a wide talent pool and promoting the diverse range of careers within the Group. The Remuneration Committee of the Group ensures that appropriate senior management is recruited to deliver on the Group's objectives and is responsible for remuneration strategy, recruitment and long-term incentive plans for senior executives and its report can be found in the Mitchells & Butlers plc Annual Report and Accounts 2023 at pages 88 to 118.

Wates Principle 6 concerns Stakeholder relationships and engagement, where Directors should foster effective stakeholder relationships aligned to the company's purpose, and where the board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions. The principal activity of the Group (including the Company) is described on page 1 of these financial statements, and the breadth of stakeholder and other considerations that would often apply in operating or commercial trading companies have generally not applied to the decisions made by the Board. The Company's main stakeholders are guests, employees and other Group companies, and for reasons of efficiency and effectiveness much of the stakeholder engagement takes place at Mitchells & Butlers plc Group level, further detail of which can be found in the Strategic Report of Mitchells & Butlers plc and the Company's s. 172 statement on page 7. The Board of Mitchells & Butlers plc is clear that good governance and effective communication are essential to deliver our purpose and protect the Group's brand, reputation and relationships with its stakeholder community including shareholders, guests, employees, suppliers and the local communities in which the Company operates. The Directors of the Company feel confident that all companies within the Group have a culture that fosters effective stakeholder relationships which can be specifically seen in the detail of individual considerations listed in the s. 172 statement on page 7 of this report. The Company takes into account the stakeholder views considered and collated at a wider Group level, including as part of Dave Coplin's engagement with the Group's (including the Company's) workforce and wider stakeholders and through the Employee Forum.

Directors of the Company

The Directors who held office during the period and up to the date of this report were as follows:

S K Martindale
L J Miles
A W Vaughan
A D Freeman
A J M Hughes

Directors' indemnity

Throughout the period to which these financial statements refer, the Directors had the benefit of a Directors' and officers' liability insurance policy, the premium for which was paid by Mitchells & Butlers Leisure Retail Limited, a Company within the Group that provides management services and the supply of drink, food and pub consumables to other companies within the Group.

Employment policies

Through its diversity policy, the Company seeks to ensure that every employee, without exception, is treated equally and fairly and that all employees are aware of their responsibilities. Our policies and procedures fully support our disabled colleagues.

We take active measures to do so via:

- a robust reasonable adjustment policy;
- disability-specific online resources (accessible via the Group's online recruitment system); and
- processes to ensure colleagues are fully supported.

The Company is responsive to the needs of its employees. As such, should any employee of the Company become disabled during their time with us, we will actively retrain that employee and make reasonable adjustments to their working environment where possible, in order to keep the employee with the Mitchells and Butlers Group of companies. It is the policy of the Company that the recruitment, training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Mitchells & Butlers Retail Limited

Directors' Report for the 53 weeks ended 30 September 2023 (continued)

Employee engagement

The Company engages with its employees in a number of ways including;

- a dedicated intranet for Retail Management;
- line manager briefings;
- email news alerts;
- 'Mable', the Mitchells & Butlers online learning platform;
- weekly bulletins – specifically targeted at retail house managers;
- employee social media groups; and
- communications forums and roadshows held by functions and brands.

Details of the financial and economic factors affecting the performance of the Company are shared with all employees at the appropriate time using the methods listed above. We provide opportunities for employees to give their feedback to the Company in a number of ways, from team or shift meetings in restaurants, bars and pubs and engagement surveys for all employees to the Mitchells & Butlers Business Forum. Business Forum representatives collect questions from employees across the Company and put them to members of the Executive Committee. The questions and answers are communicated to employees.

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

Environmental matters

The Mitchells and Butlers Group recognises that the health of our planet is critical to the wellbeing of society at large and that the food industry has a significant part to play in addressing the current climate emergency. We also recognise that the food industry will feel the effects of continued climate change ever more acutely which will result in changes in consumer behaviour, advances in innovation and the evolution of leisure offers to adapt to changing needs. The Directors of Mitchells and Butlers plc are committed to delivering the purpose of the organisation; to be the host of life's memorable moments, and to do so in a way which reduces the environmental harm caused by operations. We have developed a Net Zero strategy with a target date of 2040. We have developed a clear governance framework to support our assessment and response to climate-related matters. The Company operates under Group policies, with further details on the Group's Task Force on Climate-related Financial Disclosures (TCFD) together with emissions targets provided in the Annual Report and Accounts 2023 of Mitchells & Butlers plc.

Disclosure of information to the auditor

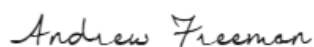
The Directors who held office as at the date of approval of this Directors' report confirm that so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and that each Director has taken all the steps that they ought to have taken as a Director to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of s418 of the Companies Act 2006.

Appointment of auditor

In accordance with section 485 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board on 29 November 2023 and signed on its behalf by:



A D Freeman
Director

Mitchells & Butlers Retail Limited

Directors' Responsibilities Statement

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent Auditor's Report to the members of Mitchells and Butlers Retail Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Mitchells & Butlers Retail Limited ("the Company") for the 53 week period ended 30 September 2023 which comprise the income statement, the balance sheet, the statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2023 and of its profit for the 53 week period then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework* and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Directors have adopted the going concern basis in preparing these financial statements after assessing the impact of identified principal risks and their possible adverse impact on financial performance, specifically revenue and cash flows throughout the going concern period, being at least 12 months from the date of signing of these financial statements ("the going concern period").

We draw your attention to note 1 of the financial statements which indicates that the Company's ability to continue as a going concern is dependent on the continued financial support from its ultimate parent company, Mitchells & Butlers plc. We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources and metrics relevant to debt covenants over this period were :

- Maintenance of sales growth in the face of pressure on consumer spending power
- Future outlook for cost inflation specifically in food costs, drink costs, energy prices and wages and salaries

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Company's financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively.

Our procedures over the Group's going concern assessment also included:

- We assessed the forecast cash position, available committed facilities and the directors' assessment of the Group's ability to comply with its covenants for a period of at least 12 months from the date of approval of the financial statements ('forecast period'), to understand the financial resources available to the Group during the forecast period.
- We assessed the ability of the Group to accurately forecast by comparing the most recent financial year's performance against budget and challenged the assumptions over the going concern period based on historical performance. We also compared the actual performance in recent years versus base case and downside case to challenge the quantum of risks applied in the forecasts. We considered the consistency of the directors' forecasts with other areas of the audit, including their right-of-use asset impairment review and revaluation of freehold and long leasehold properties.
- We evaluated how the cash flow model captures events and conditions that may cast significant doubt on the ability to continue as a going concern and evaluated whether key assumptions were within a reasonable range, and assessed the plausible but severe downside scenarios, particularly whether those downside scenarios reflected plausible impacts of higher cost inflation and changes in consumer behaviour on the business.

Independent Auditor's Report to the members of Mitchells and Butlers Retail Limited (continued)

Going concern (continued)

- We assessed the downside sensitivities to check whether these represented severe but plausible scenarios based on our knowledge of the business and sector and we considered the most recent trading results to form a holistic view of the Group.
- We assessed the forecasts and key assumptions by reference to our knowledge of the business and the general market conditions including the potential risk of management bias. We critically assessed the impact of those market conditions on sales and cost inflation assumptions included within the cash flow forecasts;
- We evaluated the achievability of the actions the directors consider they would take to improve the position should the risks materialise, taking into account the extent to which the directors can control the timing and outcome of these.
- We considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks and dependencies, and related sensitivities.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors, internal audit, and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected, or alleged fraud.
- Reading Board minutes.
- Considering remuneration incentive schemes and performance targets for management, Directors and other staff

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards and taking into account possible pressures to meet profit targets, and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that Group and component management may be in a position to make inappropriate accounting entries.

On this audit we do not believe there is a fraud risk related to revenue recognition because revenue is generated through recharging costs to other Group companies. This revenue contains no significant judgements, is comprised of a large number of small, simple transactions that are settled by other Group companies.

We identified a fraud risk related to the valuation of the freehold and long leasehold pub and restaurant estate in response to the level of estimation uncertainty in the valuation.

We performed procedures including:

- Identifying journal entries and other adjustments to test for based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management/ those posted to unusual accounts related to revenue, cash and borrowings, operating costs/other expenses, seldom used accounts and those that move costs out of EBITDA.

Independent Auditor's Report to the members of Mitchells and Butlers Retail Limited (continued)

Fraud and breaches of laws and regulations – ability to detect (continued)

- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias
- We evaluated and challenged the output of the valuations through the identification of higher risk assets with the assistance of KPMG valuation specialists

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management, and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's license to operate. We identified the following areas as those most likely to have such an effect: the Pubs Code, licensing regulations, planning and building legislation, health and safety, data protection laws, anti-bribery, and certain aspects of company legislation recognising the nature of the company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Independent Auditor's Report to the members of Mitchells and Butlers Retail Limited (continued)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 13, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at

www.frc.org.uk/auditorsresponsibilities.¹

The purpose of our audit work and to whom we owe our responsibilities

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.



Simon Haydn- Jones
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Snowhill,
Birmingham,
B4 6GH
29 November 2023

Mitchells & Butlers Retail Limited
Income statement for the 53 weeks ended 30 September 2023

		53 weeks ended 30 September 2023	52 weeks ended 24 September 2022
	Note	£m	£m
Revenue	2	1,848	1,642
Other income	2	-	3
Operating costs	3	(1,633)	(1,456)
Separately disclosed items	4	(102)	(89)
OPERATING PROFIT		113	100
Finance income	6	4	1
Finance costs	7	(95)	(99)
PROFIT BEFORE TAXATION		22	2
Tax credit	8	3	10
PROFIT FOR THE PERIOD		25	12

The above results are derived from continuing operations.

The notes on pages 22 to 56 form an integral part of these financial statements.

Mitchells & Butlers Retail Limited
Statement of Comprehensive (Expense)/Income
for the 53 weeks ended 30 September 2023

	Note	53 weeks ended 30 September 2023 £m	52 weeks ended 24 September 2022 £m
PROFIT FOR THE PERIOD		<u>25</u>	<u>12</u>
Items that will not be reclassified subsequently to profit and loss:			
Unrealised loss on revaluation of the property portfolio	9	(74)	(168)
Tax relating to items not reclassified	8	<u>13</u>	<u>35</u>
		<u>(61)</u>	<u>(133)</u>
Items that may be reclassified subsequently to profit and loss:			
Cash flow hedges:			
Gains arising during the period	16	14	147
Reclassification adjustments for items included in profit or loss	16	7	33
Tax relating to items that may be reclassified	8	<u>(5)</u>	<u>(45)</u>
		<u>16</u>	<u>135</u>
OTHER COMPREHENSIVE (EXPENSE)/INCOME AFTER TAX		<u>(45)</u>	<u>2</u>
TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE PERIOD		<u>(20)</u>	<u>14</u>

The notes on pages 22 to 56 form an integral part of these financial statements.

Mitchells & Butlers Retail Limited

(Registration number: 00024542)

Balance sheet as at 30 September 2023

	Note	30 September 2023 £m	24 September 2022 £m
NON-CURRENT ASSETS			
Property, plant and equipment	9	3,446	3,577
Right-of-use assets	17	105	107
Investments in subsidiaries	11	21	21
Trade and other receivables	13	1,631	1,638
Finance lease receivables	17	2	2
TOTAL NON-CURRENT ASSETS		5,205	5,345
CURRENT ASSETS			
Inventories	12	19	18
Trade and other receivables	13	24	32
Current tax receivable		-	1
Cash and cash equivalents		54	61
TOTAL CURRENT ASSETS		97	112
TOTAL ASSETS		5,302	5,457
CURRENT LIABILITIES			
Trade and other payables	14	(353)	(330)
Borrowings	15	(123)	(114)
Lease liabilities	17	(10)	(19)
TOTAL CURRENT LIABILITIES		(486)	(463)
NET CURRENT LIABILITIES		(389)	(351)
TOTAL ASSETS LESS CURRENT LIABILITIES		4,816	4,994
NON-CURRENT LIABILITIES			
Borrowings	15	(1,152)	(1,275)
Lease liabilities	17	(135)	(129)
Derivative financial instruments	16	(7)	(28)
Deferred tax liabilities	19	(327)	(346)
Provisions	20	(5)	(5)
TOTAL NON-CURRENT LIABILITIES		(1,626)	(1,783)
TOTAL LIABILITIES		(2,112)	(2,246)
NET ASSETS		3,191	3,211
Share capital	21	146	146
Hedging reserve	21	(5)	(21)
Revaluation reserve	21	823	879
Retained earnings	21	2,227	2,207
TOTAL EQUITY		3,191	3,211

Approved by the Board and authorised for issue on 29 November 2023. They were signed on its behalf by:

Andrew Freeman

A D Freeman
Director

The notes on pages 22 to 56 form an integral part of these financial statements.

Mitchells & Butlers Retail Limited
Statement of Changes in Equity
for the 53 weeks ended 30 September 2023

	Share capital £m	Revaluation reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
At 25 September 2021	146	1,005	(156)	2,202	3,197
Profit for the period	-	-	-	12	12
Other comprehensive income/(expense)	-	(126)	135	(7)	2
Total comprehensive income/(expense)	-	(126)	135	5	14
At 24 September 2022	146	879	(21)	2,207	3,211
Profit for the period	-	-	-	25	25
Other comprehensive income/(expense)	-	(56)	16	(5)	(45)
Total comprehensive income/(expense)	-	(56)	16	20	(20)
At 30 September 2023	146	823	(5)	2,227	3,191

The notes on pages 22 to 56 form an integral part of these financial statements.

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023

1. Accounting policies

Summary of significant accounting policies

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

Basis of preparation

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

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to IFRS 2 share-based payments, requirements of IFRS 7 Financial Instruments: Disclosures, disclosure requirements of IFRS 13 Fair Value Measurement, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, IAS 36 Impairment of Assets and IAS 24 Related Party Disclosures. Where relevant, equivalent disclosures have been given in the Annual Report and Accounts 2023 of Mitchells & Butlers plc.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain freehold and long leasehold properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

The Company's ultimate parent undertaking, Mitchells & Butlers plc includes the Company in its consolidated financial statements. The consolidated financial statements of Mitchells & Butlers plc are prepared in accordance with International Financial Reporting Standards as adopted within the UK and in accordance with the Companies Act 2006, and are available to the public and may be obtained from the Company Secretary, Mitchells & Butlers plc, 27 Fleet Street, Birmingham B3 1JP.

Accounting reference date

The Company's accounting reference date is 30 September. The Company draws up its financial statements to the Saturday directly before or following the accounting reference date, as permitted by section 390 (3) of the Companies Act 2006. The period ended 30 September 2023 includes 53 weeks. The comparative period is for the 52 weeks ended 24 September 2022.

Consolidation

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

Going concern

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have performed a going concern assessment which indicates that, taking account of a severe but plausible downside, the Company will have sufficient funds, through its funding from its ultimate parent company, Mitchells and Butlers plc, to meet its liabilities as they fall due for that period.

That assessment is dependent on Mitchells and Butlers plc not seeking repayment of the amounts currently due to the Group, which at 30 September 2023 amounted to £205m or term advances from Mitchells & Butlers Finance plc, which at 30 September 2023 amount to £1,275m and providing additional financial support during that period, if required.

Mitchells and Butlers plc has indicated its intention to continue to make available such funds as are needed by the Company for the period covered by the assessment, being at least 12 months from the date of approval of these financial statements, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the assessment. As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

However, continued support is dependent on the ability of the Mitchells and Butlers plc Group being able to settle its liabilities as they fall due. The Directors of Mitchells and Butlers plc have a reasonable expectation that the Mitchells and Butlers plc Group has adequate resources to continue as a going concern for a period of at least 12 months from the date of signing the Group financial statements, as a result of the following considerations.

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

1. Accounting policies

Going concern (continued)

The challenges presented to the hospitality sector of Covid-19, Brexit and more recently high and persistent cost inflation (both for the business and its customers) have resulted in reduced levels of profits and operating cash flow since March 2020. These factors cast a degree of uncertainty as to the future financial performance and cash flows of the Group and have been considered by the Directors in assessing the ability of the Group to continue as a going concern.

The Group's primary source of borrowings is through ten tranches of fully amortising loan notes with a gross debt value of £1.3bn as at the end of the year. These are secured against the majority of the Group's properties and its future income streams. The principal repayment period varies by class of note with maturity dates ranging from 2023 to 2036.

During the year the Group completed a refinancing of its unsecured credit facility. The new facility of £200m is committed and remains unsecured, with a negative pledge in favour of participating banks, and has a maturity date in July 2026. At the balance sheet date there were no drawings under this facility.

Within the secured debt financing structure there are two main covenants: the level of net worth (being the net asset value of the securitisation group) and, FCF to DSCR. As at 30 September 2023 there was substantial headroom on the net worth covenant. FCF to DSCR represents the multiple of Free Cash Flow (being EBITDA less tax and required capital maintenance expenditure) generated by sites within the structure to the cost of debt service (being the repayment of principal, net interest charges and associated fees). This is tested quarterly on both a trailing two quarter and a four quarter basis.

The unsecured facility also has two main financial covenants, based on the performance of the unsecured estate: the ratio of EBITDAR to rent plus interest (at a minimum of 1.25 times) and Net debt to EBITDA (to be no more than 3.0 times), both tested on a half-yearly basis (for the prior four quarters).

In the year ahead the main uncertainties facing the Group are considered to be the maintenance of growth in sales in the face of pressure on consumer spending power, and cost inflation. The outlook for these is uncertain and will depend on a number of factors including consumer confidence, global political developments and supply chain disruptions and government policy.

The Group Directors have reviewed the financing arrangements against a base case forward trading forecast in which they have considered the Group's current financial position. This forecast assumes mid single digit growth in sales across the year, a rate slightly below the level generated in recent months. Cost inflation is assumed to abate from the historic high levels last year, with some deflation in energy costs, blending at an expected net increase of approximately three percent across the cost base of the business of approximately £2bn. Under this base case the Group is able to stay within securitisation and committed facility financial covenants and maintains sufficient liquidity.

The Group Directors have also considered a severe but plausible downside scenario covering adverse movements against the base forward forecast in both sales and cost inflation in which some mitigation activity is taken including lower capital expenditure on site remodel activity and a flex down of labour and site costs in line with reduced sales. In this scenario sales are assumed to remain in growth but at an initial level of one percent, falling to three percent, below the base case forecast. Unmitigated cost inflation is also higher in the areas of food, labour and energy. In this downside scenario the Group is again able to stay within securitisation and committed facility financial covenants, whilst maintaining sufficient liquidity.

Furthermore, the Group Directors have considered a reverse stress test analysis, to review the headroom below which trading could fall beyond the downside scenario before the earlier of financial covenants becoming breached, or available liquidity becoming insufficient. This analysis indicates that on consistent cost assumptions, sales would be able to fall a further 3.3% (being approximately one percent down on FY23) throughout the forecast period before financial covenants were breached when tested at Q4 FY24 being the last full testing period within the 12 month going concern assessment period. In this scenario the Group would still have sufficient available liquidity.

After due consideration of these factors, the Group Directors believe that it remains appropriate to prepare the Group financial statements on a going concern basis. As a result, based on their enquiries, the Company Directors believe that it remains appropriate to prepare these financial statements on a going concern basis.

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

1. Accounting policies (continued)

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions in the application of accounting policies that affect reported amounts of assets, liabilities, income, and expense.

Estimates and judgements are periodically evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Judgements and estimates for the period remain largely unchanged from the prior period.

Significant accounting estimates:

The significant accounting estimates with a significant risk of a material change to the carrying value of assets and liabilities within the next year in terms of IAS 1 Presentation of Financial Statements, are:

- Fair value of freehold and long leasehold properties – see note 9

Other areas of judgement are described in each section listed below:

- Determination of items that are separately disclosed – see note 4
- Impairment review of short leasehold properties and right-of-use assets – see note 18
- Impairment review of trade and other receivables – see note 13

Other sources of estimation uncertainty are described in:

- Impairment review of short leasehold properties and right-of-use assets – see note 18

New and amended IFRS Standards that are effective for the current period

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and interpretations which have been adopted by the Company in these financial statements for the first time with the following impact.

Accounting standard	Effective date
<i>Amendments to IAS 37 (Onerous Contracts – cost of fulfilling a contract)</i>	The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for annual reporting periods beginning on or after 1 January 2022. The amendments have no impact on the contracts of the Group that are identified as onerous, as all costs associated with fulfilling the lease contracts are allocated in the assessment of whether a lease is onerous. As such there is no change to the leases assessed as onerous, or the resulting onerous lease provision shown in note 20.

Revenue recognition

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

Revenue – food and drink

The majority of revenue comprises food and drink sold in the Company's outlets. Revenue is recognised when control of the goods has transferred, being at the point the customer purchases the goods at the outlet or on ordering through a delivery partner. Payment of the transaction price is due immediately at the point the customer makes a purchase at the outlet, or on agreed terms where purchases are made through third-party delivery partners. Revenue excludes sales-based taxes, coupons and discounts.

Revenue – services

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

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

1. Accounting policies (continued)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in the income statement on a systematic basis over the periods in which the Group recognises as expenses the related operating costs for which the grants are intended to compensate.

Apprenticeship incentives

The Group is entitled to claim £1,000 for each apprentice employed, where they are aged 16 to 18, or under 25 and meet certain other criteria. In prior periods, as part of its response to the Covid-19 pandemic, the UK Government introduced a scheme to enable an employer to receive up to an additional £3,000 per apprentice, where the apprentice commenced employment between 1 August 2020 and 31 January 2022. The payment is phased with amounts due in equal instalments at 90 days and 365 days after employment commenced and is recognised on receipt of cash.

Local Authority grants

During the prior period, following the EU Court ruling on State Aid aggregation, the Group recognised an additional £2m of Covid-19 support, subject to the individual caps applicable in both the UK and Germany. In addition, following the outbreak of the Omicron variant of Covid-19 in the UK in November 2021, the Government introduced some further grants to help support businesses in the leisure and hospitality sectors. As a result, a further £1m of grants were recognised.

Separately disclosed items

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

Separately disclosed items are those which are separately identified by virtue of their size or incidence and include movements in the valuation of the property portfolio as a result of the annual revaluation exercise, impairment review of short leasehold and unlicensed properties, impairment review of right-of-use assets, impairment of intercompany receivables and profit or loss on property disposals.

Finance costs

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

Finance income

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

Property, plant and equipment

The majority of the Company's freehold and long leasehold licensed land and buildings, and the associated landlord's fixtures, fittings and equipment (i.e. fixed fittings) are revalued annually and are therefore held at fair value less depreciation. Tenant's fixtures and fittings (i.e. loose fixtures) within freehold and long leasehold properties, are held at cost less depreciation and impairment.

Short leasehold buildings (leases with an unexpired lease term of less than 50 years), unlicensed land and buildings and associated fixtures, fittings and equipment are held at cost less depreciation and impairment.

Land and buildings include leasehold improvements on long and short leases. All land and buildings are disclosed as a single class of asset within the property, plant and equipment table, as we do not consider the short leasehold and unlicensed buildings to be material for separate disclosure.

Non-current assets held for sale are held at their carrying value or their fair value less costs to sell where this is lower.

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

1. Accounting policies (continued)

Property, plant and equipment (continued)

Depreciation (continued)

Depreciation is charged to the income statement on a straight-line basis to write off the cost less residual value over the estimated useful life of an asset and commences when an asset is ready for its intended use. Expected useful lives and residual values are reviewed each period and adjusted if appropriate. No adjustments have been made in the period.

Freehold land is not depreciated.

Freehold and long leasehold buildings are depreciated so that the difference between their carrying value and estimated residual value is written off over 50 years from the date of acquisition. The residual value of freehold and long leasehold buildings is reassessed each period and is estimated to be equal to the fair value determined in the annual valuation and therefore no depreciation charge is recognised.

Short leasehold buildings, and associated fixtures and fittings, are depreciated over the shorter of the estimated useful life and the unexpired term of the lease.

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

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

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

Disposals

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

Revaluation

The revaluation, performed at 30 September 2023, is determined via annual third-party inspection of 20% of the sites with the aim that all sites are individually valued approximately every five years. The valuation utilises estimates of fair maintainable trade and valuation multiples, with fair maintainable trade comprising estimates of both fair maintainable turnover (FMT) and fair maintainable operating profit (FMOP), and estimated fair value of tenant's fixtures and fittings. The revaluation determined by the annual inspection was carried out in accordance with the RICS Valuation – Global Standards 2022 which incorporate the International Valuation Standards and the RICS Valuation – Professional Standards UK (the 'Red Book') assuming each asset is sold as a fully operational trading entity.

Properties are valued as fully operational entities, to include fixtures and fittings but excluding stock, personal goodwill and estimated fair value of tenant's fixtures and fittings.

The 80% of the freehold and long leasehold estate which is not subject to a third-party valuation in the period is instead revalued internally by management. The Group's external valuer provides advice to management in relation to their internal valuation. This valuation is performed using the same principles applied in determining FMT and FMOP for the externally valued estate together with using the same multiples as those applied by the external valuer. Sites impacted by expansionary capital investment in the preceding twelve months are reviewed for impairment only, based on estimated annualised post investment fair maintainable trade against the carrying value of the asset. Where the value of land and buildings derived purely from a multiple applied to the fair maintainable trade misrepresents the underlying asset value, a spot valuation is applied.

Surpluses which arise from the revaluation exercise are included within other comprehensive income (in the revaluation reserve) unless they are reversing a revaluation deficit which has been recognised in the income statement previously; in which case an amount equal to a maximum of that recognised in the income statement previously is recognised in the income statement. Where the revaluation exercise gives rise to a deficit, this is reflected directly within the income statement, unless it is reversing a previous revaluation surplus against the same asset; in which case an amount equal to the maximum of the revaluation surplus is recognised within other comprehensive income (in the revaluation reserve).

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

1. Accounting policies (continued)

Impairment - Property, plant and equipment and right of use assets

As described in the property, plant and equipment policy (note 9), the lease accounting policy (note 17) impairment reviews are considered at a cash-generating unit level, with this being an individual outlet.

The carrying value of assets for an individual outlet, comprise the property, plant and equipment value and the associated right-of-use asset. An impairment loss is recognised whenever the carrying value of the outlet exceeds its recoverable amount, which is determined as the higher of the value in use, or fair value less costs to sell for each outlet. Any resulting impairment relates to sites with poor trading performance, where the output of the value in use calculations are insufficient to justify their current net book value. Any changes in outlet earnings or cash flows, the discount rate applied to those cash flows, or the estimate of sales proceeds could give rise to an additional impairment loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised in the income statement. An impairment reversal is only recognised where there is a change in circumstances or favourable events since the last impairment test impacting estimates used to determine recoverable amounts, not where it results from the passage of time.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any provision for impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and other short-term highly liquid deposits with an original maturity at acquisition of three months or less. Cash held on deposit with an original maturity at acquisition of more than three months is disclosed as other cash deposits.

Trade receivables

Trade receivables and other receivables are recorded initially at transaction price and subsequently measured at amortised cost. This results in their recognition at nominal value less an allowance for any doubtful debts. The allowance for doubtful debts is recognised based on management's expectation of losses without regard to whether an impairment trigger happened or not (an "expected credit loss" model). The Company always measures the loss allowance for trade receivables at an amount equal to lifetime ECL.

Inventories

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

Trade payables

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

Taxation

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

Deferred tax

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

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

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

1. Accounting policies (continued)

Deferred tax (continued)

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset realised based on tax laws and rates that have been substantively enacted at the balance sheet date.

The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities.

Group tax relief

When losses are surrendered between group companies to offset tax liabilities arising, payment may be made up to an amount equivalent to the tax value of the losses claimed in certain circumstances.

Borrowings

Borrowings are stated initially at fair value (normally the amount of the proceeds) net of issue costs. Thereafter they are stated at amortised cost using an effective interest basis. Finance costs, which are the difference between the net proceeds and the total amount of payments to be made in respect of the instruments, are allocated over the term of the debt using the effective interest method.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are measured using the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

Onerous property provisions represent the expected unavoidable losses on onerous and vacant property leases and comprise the net lease commitment (fixed service charges) not expected to be covered by operating revenue after all other operating costs. The provision is calculated on a site by site basis with a provision being made for the remaining committed lease term, where a lease is considered to be onerous. Other contractual dilapidations costs are also recorded as provisions as appropriate.

Leases

Company as lessee

The Company assesses whether a contract is or contains a lease, at inception of the contract.

The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the future lease payments unpaid at the lease commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in substance fixed payments), less any lease incentives receivable; and
- Lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a break option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

1. Accounting policies (continued)

Leases (continued)

Company as lessee (continued)

- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, adjusted for any advance payments made at or before lease commencement, less any lease incentives received and any initial direct costs (including lease premiums).

Whenever the Company incurs an obligation to restore the underlying asset to the condition required by the terms and conditions of the lease, a dilapidations provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the remaining committed lease term on a straight-line basis. Right-of-use assets are tested annually for impairment in accordance with IAS 36 Impairment of Assets.

Right-of-use assets are subsequently remeasured for any changes in lease term and future committed rental payments.

For short-term leases (lease term of 12 months or less), and leases of low-value assets (such as personal computers and office furniture), the Company recognises a lease expense on a straight-line basis, directly in the income statement, as permitted by IFRS 16.

Company as lessor

The Company enters into lease agreements as a lessor with respect to some of its properties. The properties are operated as either licensed or unlicensed businesses by the tenants.

Leases for which the Company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. When the Company is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

Pensions

The Company's income statement charge in respect of its defined contribution arrangements is equal to the contributions payable for the period.

Mitchells & Butlers plc, the sponsoring employer, accounts for pensions in accordance with IAS 19 Employee Benefits. Since there is no contractual agreement or policy in place to allocate the defined benefit plan across the subsidiaries that employ members of these plans, which include the Company, the net defined benefit cost is recognised by Mitchells & Butlers plc.

The total liability in the Mitchells & Butlers plc pension plans, as measured on an IAS 19 basis, is recorded in the financial statements of Mitchells & Butlers plc, the sponsoring employer of the Mitchells & Butlers pension plans.

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

1. Accounting policies (continued)

Share based payments

Share options and share awards are granted to employees of the Company by Mitchells & Butlers plc. Mitchells & Butlers plc accounts for share options and share awards in accordance with IFRS 2 Share-based Payment. The cost of such awards is measured at fair value, excluding the effect of non market-based vesting conditions, on the date of grant. The expense is recognised over the vesting period and is adjusted for the estimated effect of non market-based vesting conditions and forfeitures, on the number of shares that will eventually vest due to employees leaving the Company. Fair values are calculated using either the Black-Scholes, Binomial or Monte Carlo simulation models depending upon the conditions attached to the particular share scheme.

The Company's profit and loss account charge in respect of share-based payments represents an allocation of the overall charge incurred by the Group.

Financial instruments

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

Financial assets

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

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

Impairment of financial assets

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

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

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

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

Definition of default

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

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

1. Accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

Write-off policy

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

Measurement and recognition of expected credit losses

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

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

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

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

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company does not retain substantially all the risks and rewards of ownership but continues to control a transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

Financial Liabilities

The Company has financial liabilities relating to borrowings, for which the accounting policy is provided on page 28. Other financial liabilities are initially measured at fair value, net of transaction costs.

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

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability discharged and the consideration paid and payable is recognised in profit or loss.

Effective interest method

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

Derivative financial instruments

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

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

1. Accounting policies (continued)

Financial instruments (continued)

Derivative financial instruments (continued)

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

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

Hedge accounting

The Company designates its derivative financial instruments i.e. interest rate swaps, as cash flow hedges. At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

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

Cash flow hedges

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

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

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

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

2. Revenue and other income

Revenue

Mitchells & Butlers Retail Limited is a wholly owned subsidiary of Mitchells & Butlers Retail Holdings Limited with its operations falling under a single class of business and all residing within the UK. As such the Company reports only a single business segment. Disclosures under IFRS 8 Segmental Reporting are only provided at a Group level and are available in the Mitchells & Butlers plc Annual Report and Accounts 2023.

Revenue is analysed as follows:

	53 weeks ended 30 September 2023 £m	52 weeks ended 24 September 2022 £m
Food	934	832
Drink	846	747
Services	68	63
Total revenue	<u>1,848</u>	<u>1,642</u>

Revenue from services includes rent receivable of £8m (2022 £7m) from leased operations.

In the prior period the Company benefitted from a reduction in the rate of VAT from 20% to 12.5% applied for the six month period from 1 October 2021 until 31 March 2022. The estimated impact of this on food and drink revenue in the current period is £nil (2022 £32m).

Other income

Other income is analysed as follows:

	53 weeks ended 30 September 2023 £m	52 weeks ended 24 September 2022 £m
Government grant - Local Authority Grants	-	2
Government grant - Apprenticeship incentives	-	1
Total other income	<u>-</u>	<u>3</u>

Government grants are described in note 1.

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

3. Operating costs

	Note	53 weeks ended 30 September 2023 £m	52 weeks ended 24 September 2022 £m
Operating costs are analysed as follows:			
Raw materials & food and drink consumables recognised as an expense		491	411
Changes in inventories of finished goods	12	(2)	(4)
Employee costs	5	566	504
Hire of plant & machinery		19	17
Operating lease expense - property ^a		2	3
Intercompany costs ^b		91	92
Business rates		67	73
Utilities		121	117
Other costs ^c		194	158
Depreciation of property, plant and equipment	9	71	71
Depreciation of right-of-use assets	17	13	14
Total operating costs		<u>1,633</u>	<u>1,456</u>

- Property operating lease costs include service charge, insurance and turnover rents.
- Intercompany costs represent the management service charge payable to Mitchells & Butlers Leisure Retail Limited.
- Other costs mainly relate to other pub operational costs.

Fees paid to KPMG LLP for the audit of the Company's financial statements were £0.22m (2022 £0.18m). Fees paid to KPMG LLP and their associates for non-audit services are not disclosed for the Company since the Annual Report and Accounts 2023 of Mitchells & Butlers plc, the ultimate parent of Mitchells & Butlers Retail Limited discloses such fees on a consolidated basis.

4. Separately disclosed items

Critical accounting judgements

Judgement is used to determine those items which should be separately disclosed to allow a better understanding of the adjusted trading performance of the Company. This judgement includes assessment of whether an item is of sufficient size or of a nature that is not consistent with normal trading activities.

Separately disclosed items are identified as follows:

- Profit/(loss) arising on property disposals – property disposals are disclosed separately as they are not considered to be part of adjusted trade performance and there is volatility in the size of the profit/(loss) in each accounting period.
- Movement in the valuation of the property portfolio – this is disclosed separately, due to the size and volatility of the movement in property valuation each period, which can be partly driven by movements in the property market. This movement is also not considered to be part of the adjusted trade performance of the Company and would prevent year on year comparability of the Company's trading performance if not separately disclosed.
- Impairment of amounts owed by group undertakings - this is disclosed separately, due to the size of the movement. This movement is also not considered to be part of the adjusted trade performance of the Company and would prevent year on year comparability of the Company's trading performance if not separately disclosed.

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

4. Separately disclosed items (continued)

The items identified are as follows:

	Note	53 weeks ended 30 September 2023 £m	52 weeks ended 24 September 2022 £m
Profit on disposal of properties		2	-
Impairment of intercompany receivable	a	(2)	(1)
Movement in the valuation of the property portfolio:			
Impairment charge arising from the revaluation	b	(95)	(75)
Net impairment of short leasehold and unlicensed properties	c	(2)	(4)
Net impairment of right-of-use assets	d	(5)	(9)
Net movement in the valuation of the property portfolio		<u>(102)</u>	<u>(88)</u>
Total separately disclosed items		<u>(102)</u>	<u>(89)</u>

- In the current period, in reviewing the lifetime expected credit loss of intercompany receivables, the Directors have concluded that a further impairment of £2m (2022 £1m) should be recognised against the intercompany receivable from Mitchells & Butlers plc. See note 13 for further details.
- Impairment arising from the Company's revaluation of its freehold and long leasehold pub estate where the carrying values of the properties exceed their recoverable amount, net of a revaluation surplus that reverses past impairments. See note 9 for further details.
- Impairment of short leasehold and unlicensed properties where their carrying values exceed their recoverable amount, net of any impairment reversal where carrying values have been increased to the recoverable amounts. See note 18 for further details.
- Impairment of right-of-use assets where their carrying values exceed their recoverable amount, net of any impairment reversal where carrying values have been increased to the recoverable amounts. See note 18 for further details.

5. Employee costs

	53 weeks ended 30 September 2023 £m	52 weeks ended 24 September 2022 £m
Wages and salaries	521	463
Social security costs	34	31
Pension costs, defined contribution scheme	10	9
Share-based payments ^a	1	1
Total employee costs	<u>566</u>	<u>504</u>

a. Full disclosure of the share schemes in operation during the period, and their valuations, are provided in the Mitchells & Butlers plc Annual Report and Accounts 2023.

Average number of employees

The 4-weekly average number of persons employed by the Company during the period, including part time employees, was 34,543 (2022 32,860). All employees are retail employees.

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

5. Employee costs (continued)

Directors' remuneration

The five (2022 six) Directors who served during the period were all employed by another Group company (Mitchells & Butlers Leisure Retail Limited) and are also Directors of other subsidiary companies of the Mitchells & Butlers plc Group. The Directors received total remuneration of £1.8m (2022 £1.2m) in respect of their services to the Group, but it is not practical to allocate this between each of the subsidiary companies for which they act as a Director. At the period end five (2022 five) of the Directors were members of the Group's defined contribution scheme, with two (2022 one) Directors also holding accrued service within the Group's defined benefit scheme. During the period, four (2022 three) of the Directors were granted share options in the 'RSP' (Restricted Share Plan) scheme. Details of these schemes are disclosed in the Mitchells & Butlers plc Annual Report Accounts 2023.

The highest paid Director received emoluments of £0.6m (2022 £0.4m), with Company contributions to defined contribution pension schemes of £nil (2022 £nil). This Director was also granted share options in the RSP scheme in the period (2022 the RSP scheme).

Pensions

Retirement and death benefits are provided for eligible employees in the United Kingdom principally by the Mitchells & Butlers Pension Plan (MABPP) and the Mitchells & Butlers Executive Pension Plan (MABEPP). These plans are funded, HMRC approved, occupational pension schemes with defined contribution and defined benefit sections.

From 1 January 2013 Mitchells & Butlers plc implemented a workplace pension plan in line with the Workplace Pensions Reform Regulations. This automatically enrolls all eligible workers into a Qualifying Workplace Pension Plan.

Defined contribution scheme

The Company's profit and loss account charge in respect of its defined contribution arrangements is equal to the contributions payable for the period.

The pension charge in respect of the defined contribution arrangements included in the profit and loss account of the Company for the 53 weeks ended 30 September 2023 was £10m (2022 £9m).

Defined benefit scheme

Mitchells & Butlers plc, the sponsoring employer, accounts for pensions in accordance with IAS 19 Employee Benefits. Since there is no contractual agreement or policy in place to allocate the defined benefit plan across the subsidiaries that each employ members of these plans, which include the Company, the net defined benefit cost is recognised by Mitchells & Butlers plc.

The total liability in the Mitchells & Butlers plc pension plans, as measured on an IAS 19 basis, is recorded in the financial statements of Mitchells & Butlers plc, the sponsoring employer of the Mitchells & Butlers pension plans.

Details of the defined benefit scheme recorded in Mitchells & Butlers plc are provided in the Mitchells & Butlers plc Annual Report and Accounts 2023.

6. Finance income

	53 weeks ended 30 September 2023 £m	52 weeks ended 24 September 2022 £m
Finance income external	4	1
Total finance income	<u>4</u>	<u>1</u>

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

7. Finance costs

	53 weeks ended 30 September 2023 £m	52 weeks ended 24 September 2022 £m
Intercompany interest on Term Advances	87	92
Liquidity facility fees reimbursed to Mitchells & Butlers Finance plc	2	2
Interest on lease liabilities	6	5
Total finance costs	<u>95</u>	<u>99</u>

8. Taxation

	53 weeks ended 30 September 2023 £m	52 weeks ended 24 September 2022 £m
Taxation – income statement		
Current taxation		
UK corporation tax	(11)	(3)
Amounts over provided in prior periods	-	1
Group relief received	3	3
	<u>(8)</u>	<u>1</u>
Deferred taxation		
Origination and reversal of temporary differences	11	7
Adjustments in respect of prior periods	(2)	-
Tax credit in respect of change in UK tax rate	2	2
	<u>11</u>	<u>9</u>
Total tax credited in the income statement	<u>3</u>	<u>10</u>

The standard rate of corporation tax applied to the reported profit is 22.0% (2022 19.0%).

The tax in the income statement for the period is a higher credit (2022 higher credit) than the standard rate of corporation tax in the UK.

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

8. Taxation (continued)

The differences are reconciled below:

	53 weeks ended 30 September 2023 £m	52 weeks ended 24 September 2022 £m
Profit before tax	22	2
Taxation charge at the UK standard rate of corporation tax of 22.0% (2022 19.0%)	(5)	-
Expenses not deductible	-	(1)
Adjustments in respect of prior periods	(2)	1
Enhanced tax reliefs claimed	2	2
UK-UK transfer pricing adjustment		3
Group relief received	6	3
Effect of change in UK tax rate	2	2
Total tax credit	<u>3</u>	<u>10</u>

Factors which may affect future tax charges

The Finance Act 2021 increased the main rate of corporation tax from 19% to 25% with effect from 1 April 2023.

The effect of this change has been reflected in the closing deferred tax balances at 24 September 2022 and 30 September 2023.

	53 weeks ended 30 September 2023 £m	52 weeks ended 24 September 2022 £m
Taxation – Other comprehensive income		
Deferred tax:		
Items that will not be reclassified subsequently to profit or loss:		
Unrealised losses/gains due to revaluations – revaluation reserve	18	42
Unrealised losses/gains due to revaluations – retained earnings	(5)	(7)
	<u>13</u>	<u>35</u>
Items that may be reclassified subsequently to profit or loss:		
Cash flow hedges	(5)	(45)
Total tax (credit)/charge recognised in other comprehensive income	<u>8</u>	<u>(10)</u>

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

9. Property, plant and equipment

Accounting judgements

Revaluation of freehold and long leasehold properties

The revaluation methodology is determined, with advice from CBRE, independent chartered surveyors and incorporates management judgement where appropriate. The application of a valuation multiple to the fair maintainable trade of each site is considered the most appropriate method for the Group to determine the fair value of freehold and long leasehold licensed land and buildings.

In the current and prior period judgement has been applied to establish the basis of fair maintainable trade that a willing third-party buyer would assume. The estimation of fair maintainable trade is derived from the individual profit and loss accounts of pubs and restaurants and is inclusive of the trading margins earned by the Group but exclusive of any head office costs. This represents the Group's best view of the value that would be attributed by other reasonably efficient operators. In the current period the prevailing reported profits have been negatively impacted by high and sustained cost inflation, notably in food and energy price increases driven by the Ukraine conflict. In the current period, turnover (FMT) has been determined using recent site performance however the inflationary pressures are not expected to fully impact onsite valuations and as such, FMOP has been determined to include an adjustment to current margins. In the prior period ending 24 September 2022 judgement was made to adjust both turnover and margin for the impact of the Omicron variant of Covid-19 in November 2021 and the recovery in trade thereafter, and high cost inflation on margin.

Where sites have been impacted by expansionary capital investment in the preceding twelve months, the fair maintainable trade has been determined by estimating both FMT and FMOP by reference to post-investment forecasts and turnover trends post opening.

For the purposes of the valuation, and in order to group together properties of a similar nature, groupings by brand are applied for which standard multiples have been established through third-party inspections of 20% of the freehold and long leasehold licensed property estate. Judgements are applied in assessing multiples on the basis of market evidence of transaction prices and nature of the overall offer within the local market, with specific consideration given to geographical location, ancillary revenue such as accommodation sales from bedrooms and lease terms for long leasehold sites.

Further judgement is required when a spot valuation is applied where the property value derived purely from a multiple applied to the fair maintainable trade misrepresents the underlying asset value with consideration given to the level of trade and location characteristics.

Significant accounting estimates

Revaluation of freehold and long leasehold properties

The application of the valuation methodology requires two significant estimates; the estimation of valuation multiples, which are determined via third-party inspections; and an estimate of fair maintainable trade, consisting of estimates of both fair maintainable turnover (FMT) and fair maintainable operating profit (FMOP).

Adjustments have been made to pub and restaurant trading margins to reflect the margin impacts of recent cost inflation which are expected to persist into the level of FMOP used by third party, reasonably efficient operators in arriving at a transaction price. The impact of inflation across drink and food, labour, energy and other pub operating costs in the current period compared to pre Covid has been assessed and adjusted individually. In aggregate approximately 2.5% of the total margin reduction reported in the current period against pre Covid trade is expected to recover in the short to medium term and has been included in estimated fair maintainable trade.

The estimation of valuation multiples is derived from the valuers knowledge of market evidence of transaction prices for similar properties. In the current period the multiples adopted reflect a slight easing of demand for freehold property caused by the lower profit margins in the sector.

There is considered to be a significant risk that an adjustment to either of these assumptions could lead to a material change in the property valuation within the next year.

A sensitivity analysis of changes in valuation multiples and fair maintainable trade, in relation to the properties to which these estimates apply, is provided on page 40. The carrying value of properties to which these estimates apply is £3,358m (2022 £3,488m).

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

9. Property, plant and equipment (continued)

Property, plant and equipment can be analysed as follows:

	Land & buildings £m	Fixtures, fittings & equipment £m	Total £m
Cost or valuation			
At 24 September 2022	3,291	716	4,007
Additions	24	88	112
Disposals ^a	(5)	(72)	(77)
Revaluation	(169)	-	(169)
Net impairment	-	(2)	(2)
At 30 September 2023	3,141	730	3,871
Depreciation			
At 24 September 2022	59	371	430
Provided in the period	3	68	71
Disposals ^a	(4)	(72)	(76)
At 30 September 2023	58	367	425
Carrying amount			
At 30 September 2023	3,083	363	3,446
At 24 September 2022	3,232	345	3,577

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

Land and buildings include leasehold improvements on long and short leases with a net book value of £64m (2022 £66m).

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

Revaluation of freehold and long leasehold properties

The fair value has been determined by estimations of fair maintainable trade and brand valuation multiples. Consideration has been given to current cost inflationary pressures notably on food, labour, energy and other pub operating costs, as well as location, quality of the pub restaurant and recent market transactions in the sector. In the current period, property multiples have been reduced, which is a reflection of the current demand in the freehold licensed property market and fair maintainable trade includes adjusted fair maintainable operating profit (FMOP) margins.

Sensitivity analysis

Changes in the fair maintainable trade, or the multiple could materially impact the valuation of the freehold and long leasehold properties, and as such they are both considered to be significant estimates in the current period.

Fair maintainable trade

In the current period, fair maintainable trade has declined by 4% as a result of changes in trade and the impact of the FMOP margin adjustment excluding the sites with investment in the current period which are only assessed for impairment. Judgement has been applied to determine the adjusted FMOP by assessing the extent that current levels of inflation are considered to be impacting on freehold licensed property values. As a result, the valuation is sensitive to the view taken on the duration of the impact of high inflation on fair maintainable trade. Should the FMOP margins fall to the levels reported through the reporting period the fair maintainable trade used as the basis in property valuations may decline by a further 6%. Assuming multiples remain stable, and without applying any further judgement on the resulting property valuation, this would generate an approximate £163m reduction in the valuation.

Multiples

Valuation multiples are determined at an individual brand level. Over the last three financial periods, the weighted average brand multiple has moved by an average of 0.2, which is considered to be within the range of reasonably possible outcomes for future movements in multiples. It is estimated that a 0.2 change in the multiple would generate an approximate £67m movement in valuation.

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

9. Property, plant and equipment (continued)

Impairment review

Short leasehold and unlicensed properties (comprising land, buildings, fixtures, fittings and equipment) which are not revalued to fair market value, are reviewed for impairment by comparing site recoverable amounts to their carrying values. Impairment is considered at a cash-generating unit level, with this being an individual outlet, the carrying value used in the impairment test, includes the total of the value held in property, plant and equipment, and the related right-of-use asset value (note 17). Any resulting impairment relates to sites with poor trading performance, where the output of the value in use calculations are insufficient to justify their current net book value. A net impairment of £2m (2022 £4m) has been recognised against short leasehold and unlicensed properties in the period. Details of the impairment review at a cash-generating unit level are disclosed in note 18.

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

	53 weeks ended 30 September 2023 £m	52 weeks ended 24 September 2022 £m
Income statement		
Revaluation deficit charged as an impairment	(139)	(97)
Reversal of past revaluation deficits	44	22
Total impairment arising from the revaluation	(95)	(75)
Impairment of short leasehold and unlicensed properties	(5)	(4)
Reversal of past impairments of short leasehold and unlicensed properties	3	-
	<u>(97)</u>	<u>(79)</u>
Revaluation reserve		
Unrealised revaluation surplus	134	49
Reversal of past revaluation surplus	(208)	(217)
	<u>(74)</u>	<u>(168)</u>
Net decrease in property, plant and equipment	<u>(171)</u>	<u>(247)</u>

The valuation techniques are consistent with the principles in IFRS 13 and use significant unobservable inputs such that the fair value measurement of each property within the portfolio has been classified as Level 3 in the fair value hierarchy. Disclosure of the key inputs to the valuation are provided in the consolidated Annual Report and Accounts 2023 of Mitchells and Butlers plc.

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

	Number of pubs	Land and buildings £m	Fixtures, fittings and equipment £m	Net book value ^a £m
30 September 2023				
Freehold properties	1,126	2,815	307	3,122
Long leasehold properties	81	211	25	236
Total revalued properties	<u>1,207</u>	3,026	332	3,358
Short leasehold properties		40	24	64
Unlicensed properties		14	2	16
Other non-pub assets		1	1	2
Assets under construction		2	4	6
Total property, plant and equipment		<u>3,083</u>	<u>363</u>	<u>3,446</u>

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

9. Property, plant and equipment (continued)

Impairment review (continued)

24 September 2022	Number of pubs	Land and buildings £m	Fixtures, fittings and equipment £m	Net book value ^a £m
Freehold properties	1,125	2,954	290	3,244
Long leasehold properties	81	218	26	244
Total revalued properties	<u>1,206</u>	3,172	316	3,488
Short leasehold properties		43	23	66
Unlicensed properties		14	2	16
Assets under construction		3	4	7
Total property, plant and equipment		<u>3,232</u>	<u>345</u>	<u>3,577</u>

a. The carrying value of freehold and long leasehold properties based on their historical cost is £2,143m and £148m respectively (2022 £2,189m and £157m).

10. Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements in relation to property, plant and equipment was £9m (2022 £20m).

11. Investments in subsidiaries

	£m
Cost	
At 30 September 2023 and 24 September 2022	<u>32</u>
Provision	
At 30 September 2023 and 24 September 2022	<u>11</u>
Carrying amount	
At 30 September 2023 and 24 September 2022	<u>21</u>

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

11. Investments in subsidiaries (continued)

Details of the subsidiaries as at 30 September 2023 are as follows:

Name of subsidiary	Country of incorporation and place of business	Holding	Proportion of voting rights and shares held	Principal activity
Old Kentucky Restaurants Limited ^a	England and Wales	Ordinary shares	100%	Trademark Owner
Browns Restaurant (Brighton) Limited	England and Wales	Ordinary shares	100%	Dormant
Browns Restaurant (Bristol) Limited	England and Wales	Ordinary shares	100%	Dormant
Browns Restaurant (Cambridge) Limited	England and Wales	Ordinary shares	100%	Dormant
Browns Restaurant (London) Limited	England and Wales	Ordinary shares	100%	Dormant
Browns Restaurant (Oxford) Limited	England and Wales	Ordinary shares	100%	Dormant
Browns Restaurants Limited ^a	England and Wales	Ordinary shares	100%	Dormant

a. indicates direct investment of the Company

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

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

12. Inventories

	30 September 2023 £m	24 September 2022 £m
Finished goods and goods for resale	<u>19</u>	<u>18</u>

13. Trade and other receivables

Current trade and other receivables

	30 September 2023 £m	24 September 2022 £m
Trade receivables	6	5
Amounts owed from group undertakings	1	1
Prepayments	14	3
Gaming machine settlement receivable ^a	-	17
Other receivables	<u>3</u>	<u>6</u>
Total trade and other receivables	<u><u>24</u></u>	<u><u>32</u></u>

a. Amount recognised at 24 September 2022 related to an expected claim amount due from HMRC in relation to a claim for VAT on gaming machines, which has been settled in the current period.

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

13. Trade and other receivables(continued)

Non-current trade and other receivables

	30 September 2023 £m	24 September 2022 £m
Amounts owed from group undertakings	<u>1,631</u>	<u>1,638</u>

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

Accounting judgements

Management have applied judgement when assessing the expected credit loss (ECL) on amounts owed by group undertakings. An assessment of the future trading cash flows and asset values of the subsidiaries has been made which also considers intercompany transactions between group companies.

The Directors consider that the carrying amount of trade receivables, amounts owed from group undertakings and other receivables approximately equates to their fair value. A lifetime ECL of £2m (2022 £2m) has been recognised against trade receivables and £7m (2022 £5m) against amounts owed from group undertakings.

Credit risk is described in note 16.

14. Trade and other payables

	30 September 2023 £m	24 September 2022 £m
Accrued charges	66	52
Social security and other taxes	57	50
Deferred income	17	14
Other payables	8	11
Amounts owed to group undertakings ^a	<u>205</u>	<u>203</u>
Total trade and other payables	<u>353</u>	<u>330</u>

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

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

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

15. Borrowings

	30 September 2023 £m	24 September 2022 £m
Maturity profile		
Amounts falling due within one year	<u>123</u>	<u>114</u>
Amounts falling due after more than one year:		
Between one and two years	130	123
Between two and five years	435	412
After five years	<u>587</u>	<u>740</u>
	<u>1,152</u>	<u>1,275</u>
Total borrowings	<u>1,275</u>	<u>1,389</u>

Term advances from Mitchells & Butlers Finance plc

Under an Issuer/Borrower Facility Agreement dated 13 November 2003, amended and restated on 15 September 2006, the Company borrowed £1,900m from Mitchells & Butlers Finance plc.

On 15 September 2006, the Company borrowed a further £655m from Mitchells & Butlers Finance plc on substantially the same terms as the original Term Advances. At the same time, the original A1 and A3 Term Advances were repaid and reissued as A1N and A3N Term Advances.

Term advances from Mitchells & Butlers Finance plc

At 30 September 2023 the Term Advances consisted of ten tranches as follows:

Tranche	Initial principal lent £m	Interest	Principal repayment period (all by instalments)	Effective interest rate %	Principal outstanding at 30 September 2023 £m	Principal outstanding at 24 September 2022 £m	Expected weighted average life ^b (years)
A1N	200	Floating	2011 to 2028	6.62 ^a	75	87	3 years
A2	550	Fixed-5.58%	2003 to 2028	5.73	136	158	3 years
A3N	250	Floating	2011 to 2028	6.70 ^a	93	109	3 years
A4	170	Floating	2016 to 2028	6.38 ^a	89	103	3 years
AB	325	Floating	2020 to 2032	6.29 ^a	276	291	6 years
B1	350	Fixed-5.98%	2003 to 2023	6.13	5	26	0 years
B2	350	Fixed-6.02%	2015 to 2028	6.13	240	256	3 years
C1	200	Fixed-6.48%	2029 to 2030	6.57	200	200	6 years
C2	50	Floating	2033 to 2034	6.48 ^a	50	50	10 years
D1	110	Floating	2034 to 2036	6.69 ^a	110	110	12 years
	<u>2,555</u>				<u>1,274</u>	<u>1,390</u>	

a. Effective interest on floating rate notes is stated after the effect of interest rate swaps.

b. The expected remaining weighted average life is based on the Term Advances being held to maturity.

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

At 30 September 2023 interest and margin is payable on the floating rate Term Advances as follows:

Tranche	Interest	Margin
A1N	3 month SONIA	0.58%
A3N	3 month SONIA	0.58%
A4	3 month SONIA	0.70%
AB	3 month SONIA	0.73%
C2	3 month SONIA	2.00%
D1	3 month SONIA	2.25%

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

15. Borrowings (continued)

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

	30 September 2023 £m	24 September 2022 £m
Principal outstanding at start of period	1,390	1,500
Principal repaid during the period	<u>(116)</u>	<u>(110)</u>
Principal outstanding at end of period	1,274	1,390
Deferred issue costs	(2)	(3)
Accrued interest	<u>3</u>	<u>2</u>
Carrying value at end of period	<u>1,275</u>	<u>1,389</u>

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. There are two main financial covenants, being the level of net assets and free cash flow (FCF) to debt service. FCF to debt service represents the multiple of cash generated by sites within the structure to the cost of debt service. This is tested quarterly on both a trailing two quarter and a four quarter basis. There are additional 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 30 September 2023, the Company had cash and cash equivalents of £54m (2022 £61m) which were governed by the covenants associated with the securitisation. Of these amounts £4m (2022 £1m), representing disposal proceeds, was held on deposit in an account over which there are a number of restrictions. The use of this cash requires the approval of the securitisation trustee and may only be used for certain specified purposes such as capital enhancement expenditure and business acquisitions.

16. Hedging Instruments

Financial risk management and impairment of financial assets

Financial risk is managed by the Group's Treasury function. The Group's Treasury function is governed by a Board Approved Treasury Policy Statement which details the key objectives and policies for the Group's treasury management. The Treasury Committee ensures that the Treasury Policy is adhered to, monitors its operation and agrees appropriate strategies for recommendation to the Board. The Treasury Policy Statement is reviewed annually, with recommendations for change made to the Board, as appropriate. The Group Treasury function is operated as a cost centre and is the only area of the business permitted to transact treasury deals. It must also be consulted on other related matters such as the provision of guarantees or the financial implications of contract terms.

The main financial risks which impact the Group result from funding and liquidity risk, credit risk, capital risk and market risk, principally as a result of changes in interest and currency rates. Derivative financial instruments, principally interest rate and foreign currency swaps, are used to manage market risk. Derivative financial instruments are not used for trading or speculative purposes.

Funding and liquidity risk

In order to ensure that the Company's long-term funding strategy is aligned with its strategic objectives, the Treasury Committee regularly assesses the maturity profile of the Company's debt, alongside the prevailing financial projections. This enables it to ensure that funding levels are appropriate to support the Company's plans.

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

16. Hedging Instruments (continued)

Funding and liquidity risk (continued)

The current funding arrangements of the Group consist of the securitised notes issued by Mitchells & Butlers Finance plc (and associated liquidity facility) along with an unsecured committed revolving credit facility of £200m. The terms of the securitisation and the revolving credit facilities contain various financial covenants. Compliance with these covenants is monitored by Group Treasury. The Group also has uncommitted credit facilities of £5m.

The Group prepares a rolling daily cash forecast covering a six week period and an annual cash forecast by period. These forecasts are reviewed on a daily basis and are used to manage the investment and borrowing requirements of the Group. A combination of cash pooling and zero balancing agreements are in place to ensure the optimum liquidity position is maintained. The Group maintains sufficient cash balances or committed facilities outside the securitisation to ensure that it can meet its medium-term anticipated cash flow requirements.

Credit risk and impairment

The Company is exposed to risk against counterparties to its financial assets from its derivative financial instruments which are used for risk management purposes and the investment of surplus funds. To mitigate this exposure, the Group Treasury function operates policies that restrict the investment of surplus funds and the entering into of derivative transactions to counterparties that have an appropriate credit rating. Counterparties may also be required to post collateral with the Group where their credit rating falls below a predetermined level.

The amount that can be invested or transacted at various ratings levels is restricted under the policy. To minimise credit risk exposure against individual counterparties, investments and derivative transactions are entered into with a range of counterparties. The Group Treasury function reviews credit ratings, as published by Moody's, Standard & Poor's and Fitch Ratings, current exposure levels and the maximum permitted exposure at given credit ratings, for each counterparty on a daily basis. Any exceptions are required to be formally reported to the Mitchells & Butlers Treasury Committee on a four weekly basis.

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

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

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

The Company's credit exposure as at 30 September 2023 was:

	12 month ECL 2023 £m	Lifetime ECL 2023 £m	Total 2023 £m	Total 2022 £m
Cash and cash equivalents	54	-	54	61
Trade receivables	-	6	6	5
Other receivables	3	-	3	6
Amounts owed by group undertakings	-	1,631	1,631	1,638

Market risk

The Company is exposed to the risk that the fair value of future cash flows of its financial instruments will fluctuate because of changes in market prices. Market risk comprises foreign currency and interest rate risk.

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

16. Hedging Instruments (continued)

Market risk (continued)

Interest rate risk

The Group has a mixture of fixed and floating interest rate debt instruments and manages the variability in cash flows resulting from changes in interest rates by using derivative financial instruments. Where the necessary criteria are met, the Group minimises the volatility in its consolidated financial statements through the adoption of the hedge accounting provisions permitted under IFRS 9. The interest rate exposure resulting from the Group's £1.3bn securitisation is largely fixed, either as a result of the notes themselves being issued at fixed interest rates, or through a combination of floating rate notes against which effective interest rate swaps are held, which are eligible for hedge accounting.

A number of the Group's financial instruments had LIBOR as their interest reference rate at the start of the prior period. During the prior period, the Group completed the necessary amendments to transition its financing arrangements in advance of the discontinuation of LIBOR as a floating reference rate, replacing LIBOR with a Sterling Overnight Index Average (SONIA) based rate in respect of sterling and a Secured Overnight Financing Rate (SOFR) based rate in respect of US dollars. The amendments in respect of the securitised bonds were agreed by the Bondholders through a formal consent solicitation process and bilateral agreements were reached with securitised swap providers (using amended reference rates consistent with those agreed under the bonds). All sterling-based facilities and agreements referencing Sterling LIBOR transitioned in the prior period to reference SONIA, plus a credit adjustment spread of 11.93 basis points to maintain an economically equivalent position, for periods commencing on or after 1 January 2022. The facilities previously referencing US dollar LIBOR transitioned to SOFR plus 26.161 basis points for periods commencing on or after 1 July 2023. The liquidity facility and the unsecured committed facility were arranged on a SONIA basis.

As part of the transition, all of the Group's hedge relationships were reviewed and these continue to be highly effective. Hedge documentation was updated in accordance with the reliefs permitted in the amendments to IFRS 9, designating the new interest reference rate in both the hedged item and the hedging instrument. As a result of the transition, there was no impact on the amounts recognised in the income statement or statement of other comprehensive income.

There has been no change to interest rate exposure in the current period. This is consistent with the Group Treasury policy on interest rate management.

Foreign exchange risk

The Company has no significant profit and loss exposure as a result of retranslating monetary assets and liabilities at different exchange rates. As the Company has no material exposure to movements in interest or exchange rates, no sensitivity analysis has been disclosed.

Maturity of cash flows

The maturity table below details the contractual undiscounted cash flows (both principal and interest), based on the prevailing period end interest rates, for the Company's financial liabilities, after taking into account the effect of interest rate swaps.

	Within					More than	Total
	1 year	1-2 years	2-3 years	3-4 years	4-5 years	5 years	
	£m	£m	£m	£m	£m	£m	£m
30 September 2023							
Term Advances	(202)	(201)	(200)	(199)	(198)	(704)	(1,704)
Interest rate swaps	2	2	2	2	2	7	17
Fixed rate: Term Advances	(200)	(199)	(198)	(197)	(196)	(697)	(1,687)
24 September 2022							
Term Advances	(201)	(195)	(195)	(194)	(194)	(882)	(1,861)
Interest rate swaps	-	(5)	(5)	(4)	(4)	(12)	(30)
Fixed rate: Term Advances	(201)	(200)	(200)	(198)	(198)	(894)	(1,891)

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

16. Hedging Instruments (continued)

Cash flow hedges

Changes in the fair value of cash flow hedges are recognised directly in the hedging reserve in equity to the extent that the hedges are effective. The cash flow hedges have been assessed as being highly effective during the financial period and are expected to remain highly effective over the remaining contract lives. The following amounts have been recognised during the period:

	53 weeks ended 30 September 2023 £m	52 weeks ended 24 September 2022 £m
Gains arising during period	14	147
Reclassification adjustments for losses included in profit or loss	7	33
Net movement in cash flow hedges recognised in equity	<u>21</u>	<u>180</u>

The Company holds six interest rate swaps with Mitchells & Butlers Finance plc. These are designated as a hedge of the cash flow and principal interest rate risk of the Company's floating rate Term Advances, comprising the A1N, A3N, A4, AB, C2 and D1 Term Loans.

The six interest rate swaps held with Mitchells & Butlers Finance plc have a nominal value of £693m (2022 £749m). These are designated as a hedge of the cash flow and principal interest rate risk of £693m (2022 £749m) of the Company's floating rate Term Advances, comprising the A1N, A3N, A4, AB, C2 and D1 Term Loans. The cash flows occur quarterly, receiving a fixed rate of interest of 4.81% (2022 4.82%) and paying a floating rate of interest based on SONIA. The contract maturity dates match those of the hedged item. No hedge ineffectiveness on the interest rate swaps was recognised in profit or loss in the current or prior period.

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

	Note	30 September 2023		24 September 2022	
		Book value	Fair value	Book value	Fair value
		£m	£m	£m	£m
Financial assets at amortised cost:					
- Cash		54	54	61	61
- Trade receivables	13	6	6	5	5
- Other receivables	13	3	3	6	6
- Finance lease receivables	17	2	2	2	2
- Amounts owed from group undertakings	13	1,631	1,631	1,638	1,638
Financial liabilities at amortised cost:					
- Borrowings	15	(1,275)	(1,275)	(1,389)	(1,389)
- Lease liabilities	17	(145)	(145)	(148)	(148)
- Other payables	14	(7)	(7)	(11)	(11)
- Accrued charges	14	(66)	(66)	(52)	(52)
- Amounts owed to group undertakings	14	(205)	(205)	(203)	(203)
Financial liabilities – derivatives at FVTPL:					
- Intercompany interest rate swaps		<u>(7)</u>	<u>(7)</u>	<u>(28)</u>	<u>(28)</u>

The fair value of the interest rate swaps is the estimated amount the Company could expect to pay or receive on termination of the agreement. These amounts are based on the valuations of the corresponding external swaps in the Group which are based on the quotations from counterparties and take into consideration interest rates prevailing at the balance sheet date. Other financial assets and liabilities are either short-term in nature or their book values approximate to fair values.

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

16. Hedging Instruments (continued)

Derivative financial instruments

IFRS 13 Financial Instruments requires the Company's derivative financial instruments to be disclosed at fair value and categorised in three levels according to the inputs used in the calculation of their fair value:

- Level 1 instruments use quoted prices as the input to fair value calculations;
- Level 2 instruments use inputs, other than quoted prices, that are observable either directly or indirectly;
- Level 3 instruments use inputs that are unobservable.

	Total liabilities	
	Less than one year £m	More than one year £m
30 September 2023		
Intercompany interest rate swaps	-	(7)
24 September 2022		
Intercompany interest rate swaps	-	(28)

The cash flow hedges are all classified as Level 2 being fair value measurements derived from inputs other than quoted prices that are observable for assets or liabilities.

17. Leases

Impairment of right-of-use assets

Right-of-use assets are reviewed for impairment by comparing site recoverable amounts to their carrying values. Impairment is considered at a cash-generating unit level. A net impairment of £5m (2022 £9m) has been recognised against right-of-use assets in the period. Details of the impairment review at a cash-generating unit level are disclosed in note 18.

Right-of-use assets can be analysed as follows:

	Land & buildings £m
Cost	
At 24 September 2022	193
Additions ^a	18
Disposals	(8)
At 30 September 2023	203
Accumulated depreciation and impairment	
At 24 September 2022	86
Provided during the period	13
Disposals	(6)
Net impairment (see note 18)	5
At 30 September 2023	98
Net book value	
At 30 September 2023	105
At 24 September 2022	107

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

17. Leases (continued)

- a Additions to right-of-use assets include any new leases and lease extensions or any rent reviews relating to existing leases.

The Company accounts for short-term leases less than 12 months in accordance with the recognition exemption in IFRS 16, and hence, related payments are expensed as incurred. Expenses from short-term leases amount to £nil (2022 £nil).

Lease liabilities

A maturity analysis of the undiscounted future lease payments used to calculate the lease liabilities is shown below.

	30 September 2023 £m	24 September 2022 £m
Amounts payable under lease liabilities		
Due within one year	15	24
Due between one and two years	15	13
Due between two and three years	14	14
Due between three and four years	14	13
Due between four and five years	16	12
Due between five and ten years	51	49
Due between ten and fifteen years	34	29
Due between fifteen and twenty years	19	20
Due between twenty and twenty five years	11	11
Due between twenty five and thirty years	9	8
Due after thirty years	56	55
Total undiscounted lease liabilities	<u>254</u>	<u>248</u>
Less: impact of discounting	<u>(109)</u>	<u>(100)</u>
Present value of lease liabilities	<u>145</u>	<u>148</u>

Analysed as:

Current lease liabilities - principal amounts due within twelve months	10	19
Non-current lease liabilities – principal amounts due after twelve months	<u>135</u>	<u>129</u>
	<u>145</u>	<u>148</u>

Finance lease receivables

A maturity analysis of the undiscounted future lease payments receivable used to calculate the finance lease receivable is shown below.

	30 September 2023 £m	24 September 2022 £m
Amounts receivable under finance leases		
Due within one year	-	-
Due within one and two years	-	-
Due within two and three years	-	-
Due within three and four years	-	-
Due within four and five years	-	-
Due after five years	2	2
Total undiscounted lease payments receivable	<u>2</u>	<u>2</u>
Less: impact of discounting	-	-
Present value of lease payments receivable	<u>2</u>	<u>2</u>

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

17. Leases (continued)

Finance lease receivables (continued)

Net investment in the leases analysed as:	30 September 2023 £m	24 September 2022 £m
Current finance lease receivables - amounts due within twelve months	-	-
Non-current finance lease receivables - amounts due after twelve months	2	2
	<u>2</u>	<u>2</u>

The Directors of the Company estimate the loss allowance on finance lease receivables at the end of the reporting period at an amount equal to lifetime ECL. None of the finance lease receivables at the end of the reporting period is past due, and taking into account the historical default experience and the future prospects of the tenants, the Directors of the Company have recognised a finance lease receivable impairment of £nil in the current period (2022 £nil).

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for finance lease receivables.

Operating lease receivables – Company as lessor

The Company leases a small proportion of its unlicensed properties to tenants. The majority of lease agreements have terms of 50 years or less and are classified as operating leases. Where sublet arrangements are in place, future minimum lease payments and receipts are presented gross.

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

	30 September 2023 £m	24 September 2022 £m
Due within one year	8	7
Due within one and two years	7	6
Due within two and three years	6	6
Due within three and four years	5	5
Due within four and five years	4	4
Due after five years	23	22
	<u>53</u>	<u>50</u>

The total value of future minimum sublease rental receipts included above is £2m (2022 £2m).

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

18. Impairment

Impairment review of cash-generating units, comprising property, plant and equipment and right of use assets

The carrying value of assets for an individual outlet, comprise the property, plant and equipment value and the associated right-of-use asset. An impairment loss is recognised whenever the carrying value of the outlet exceeds its recoverable amount, which is determined as the higher of the value in use, or fair value less costs to sell for each outlet. An impairment reversal is recognised where the recoverable amount is in excess of the carrying value, but only where there is a change in the estimates used to determine recoverable amounts, not where it results from the passage of time.

Value in use calculations use forecast trading performance pre-tax cash flows, for years 1 to 3. These include steady growth in revenue and a gradual recovery in operating margins as annual cost inflation eases, albeit that costs remain ahead of historical levels.

The forecast cash flows are discounted by applying a pre-tax discount rate of 11.0% (2022 9.65%) and a long-term growth rate of 2.0% from year 4 (2022 2.0%). The long-term growth rate is applied to the net cash flows and is based on up-to-date economic data points.

As impairment is considered at a cash-generating unit level, with this being an individual outlet, the carrying value used in the impairment test, includes the total of the value held in property, plant and equipment (note 9) and the right-of-use asset value (note 17).

Accounting judgements

For the individual outlet level impairment review, judgement has been applied to determine the most appropriate site level profit and cash flow forecasts based on the Group forecast for FY 2024 to FY 2026 that was in place at the balance sheet date.

Management apply judgement when allocating overhead costs to site cash flows, with an overhead allocation being made only for those costs that can be directly attributable to a site on a consistent basis.

Other sources of estimation uncertainty

The impairment review requires two key sources of estimation uncertainty in calculating the value in use: the estimation of forecast cash flows for each site and the selection of an appropriate discount rate. The discount rate is applied consistently to each cash-generating unit.

A sensitivity of changes in forecast cash flows and the discount rate is provided on page 54. The carrying value of assets to which these estimates apply is £169m (2022 £173m).

In summary, the carrying value of the cash-generating units and impairment charges and reversals recognised against those cash-generating units is as follows.

	Note	Carrying value 2023 £m	Impairment charges 2023 £m	Impairment reversals 2023 £m	Net Impairment 2023 £m
Short leasehold properties	9	64	(5)	3	(2)
Right-of-use assets	17	105	(10)	5	(5)
		<u>169</u>	<u>(15)</u>	<u>8</u>	<u>(7)</u>

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

18. Impairment (continued)

Impairment review of cash-generating units, comprising property, plant and equipment and right of use assets (continued)

	Note	Carrying value 2022 £m	Impairment charges 2022 £m	Impairment reversals 2022 £m	Net Impairment 2022 £m
Short leasehold properties	9	66	(4)	-	(4)
Right-of-use assets	17	107	(9)	-	(9)
		<u>173</u>	<u>(13)</u>	<u>-</u>	<u>(13)</u>

Sensitivity analysis

Changes in forecast cash flows or the discount rate could impact the impairment charge recognised against the cash-generating units, and corporate level assets.

Forecast cash flows

The forecast pre-tax cash flows used in the value in use calculations are site level forecasts determined from the Group forecast for FY 2024 to FY 2026 that was in place at the balance sheet date. Should future cashflows decline by 5%, this would result in an increase of £3m to the net impairment charge recognised.

Discount rate

The pre-tax discount rate applied to the forecast cash flows is derived from the Group's post-tax weighted average cost of capital (WACC). The assumptions used in the calculation of the Group's WACC are benchmarked to externally available data. A single discount rate is applied to all cash-generating units. Over recent periods, the discount rate used in impairment reviews has moved by c.1.0%. An increase of 1.0% in the discount rate would result in an increase of £3m to the net impairment charge recognised.

19. Deferred tax

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

	30 September 2023 £m	24 September 2022 £m
Deferred tax assets		
Derivatives	2	7
Right-of-use assets	3	3
Interest restriction losses	13	13
	<u>18</u>	<u>23</u>
Deferred tax liabilities		
Accelerated tax depreciation	(70)	(56)
Revaluation of property	(137)	(175)
Rolled over and held over gains	(135)	(135)
Depreciated non-qualifying assets	(3)	(3)
	<u>(345)</u>	<u>(369)</u>
	<u>(327)</u>	<u>(346)</u>

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

19. Deferred tax (continued)

At 30 September 2023, the Company has netted off deferred tax assets of £18m (2022 £23m) with deferred tax liabilities where there is a legally enforceable right to settle on a net basis. Deferred tax assets and liabilities have been offset and disclosed in the balance sheet as follows:

	30 September 2023 £m	24 September 2022 £m
Deferred tax assets (after offsetting)	-	-
Deferred tax liabilities (after offsetting)	<u>(327)</u>	<u>(346)</u>
	<u>(327)</u>	<u>(346)</u>

	53 weeks ended 30 September 2023 £m	52 weeks ended 24 September 2022 £m
Deferred tax in the income statement		
Accelerated tax depreciation	(14)	(10)
Trading losses	-	(14)
Interest restriction losses	-	13
Unrealised losses on revaluations	<u>25</u>	<u>20</u>
Total deferred tax credit in the income statement	<u>11</u>	<u>9</u>

20. Provisions

Onerous property provisions represent the expected unavoidable losses on onerous and vacant property leases and comprise the net lease commitment (fixed service charges) not expected to be covered by operating revenue after all other operating costs. The provision is calculated on a site by site basis with a provision being made for the remaining committed lease term, where a lease is considered to be onerous. Other contractual dilapidations costs are also recorded as provisions as appropriate.

The provision for unavoidable losses on onerous property leases has been set up to cover fixed service charge payments of vacant or loss-making properties.

The provision for dilapidation costs has been set up to cover the estimated future dilapidations claims from landlords on leases that are within five years of expiry.

Provisions can be analysed as follows:

	Onerous property provisions £m	Dilapidation provision £m	Total property provision £m
At 24 September 2022	1	4	5
Released in the period	-	(1)	(1)
Provided in the period	<u>-</u>	<u>1</u>	<u>1</u>
At 30 September 2023	<u>1</u>	<u>4</u>	<u>5</u>

Mitchells & Butlers Retail Limited

Notes to the Financial Statements for the 53 weeks ended 30 September 2023 (continued)

21. Equity

Share Capital

Allotted, called up and fully paid	30 September 2023		24 September 2022	
	No.	£	No.	£
Ordinary shares of £1 each	145,882,000	145,882,000	145,882,000	145,882,000
Ordinary shares of £0.0001 each	214,000,000	21,400	214,000,000	21,400
	<u>359,882,000</u>	<u>145,903,400</u>	<u>359,882,000</u>	<u>145,903,400</u>

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

Hedging reserve

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

Revaluation reserve

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

Retained earnings

The Company's ability to distribute these reserves by way of dividends is restricted by the securitisation covenants (see note 15).

22. Dividends

During the period, the Company has paid dividends of £nil (2022 £nil). Dividend payments are made by the Company to its immediate parent undertaking, Mitchells & Butlers Retail Holdings Limited.

The Directors are proposing a final dividend of £nil (2022 £nil).

23. Contingent liabilities

Pursuant to the securitisation of the business of Mitchells & Butlers Retail Limited on 13 November 2003, the Company is jointly and severally liable with various other companies within the Mitchells & Butlers plc Group, for all advances made by Mitchells & Butlers Finance plc to the Company and other companies within the Mitchells & Butlers Group, under an Issuer/Borrower Facility Agreement dated 13 November 2003, as amended and restated on 15 September 2006.

On 13 November 2003, the Company and certain other members of the Mitchells & Butlers plc Group granted full fixed and floating security over their respective assets and cash flows.

24. Ultimate parent undertaking

The Company's immediate parent is Mitchells & Butlers Retail Holdings Limited.

The Company's ultimate parent and controlling party is Mitchells & Butlers plc.

Relationship between entity and parents

The parent of the largest and smallest group in which these financial statements are consolidated is Mitchells & Butlers plc, incorporated in the United Kingdom.

The consolidated financial statements of Mitchells & Butlers plc are available from the Company Secretary, 27 Fleet Street, Birmingham, B3 1JP, which is the registered address of the Company.

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