Mitchells & Butlers Retail Limited

Report and Financial Statements

For the 52 weeks ended 27 September 2014

-Registered Number: 24542

STRATEGIC REPORT
For the 52 weeks ended 27 September 2014

BUSINESS MODEL

The Company is a UK operator of pubs and restaurants with an estate of 1,365 managed outlets and 49 leased and franchised outlets at 27 September 2014 (2013 1,372 managed outlets and 52 leased and franchised outlets).

Our market

In the last two years we have conducted significant research into the macro-economy, the market in which we operate, and the positioning of our brands within that market. This drives a logical strategic rationale for how we manage our brands, and importantly how we opt to allocate capital between them. We recognise that we are operating in a dynamic market with ever-changing circumstances, and therefore will continue this approach to ensure we remain relevant and competitive in the years to come.

The total UK eating and drinking out market is worth an estimated £78bn, comprising pubs, bars and restaurants, fast food, coffee and "grab and go" dining. We hold a small share of this vast market and therefore retain significant opportunity to grow.

The market in which we operate is, on aggregate, a mature one with growth levels expected to broadly track GDP and consumer expenditure. However, there are some important dynamics within the market, on which we can capitalise in order to win market share:

- The pub and restaurant market continues to see growth in branded outlets at the expense of independent outlets. Coming out of the recession consumers increasingly look for the reliability and value that a brand can offer;
- Our guests increasingly need speed and convenience. As demonstrated by the economic growth coming from productivity, consumers are increasingly time-poor, and therefore seeking convenience along with value and speed. This drives growth opportunities into other timeslots, and breakfast in particular;
- Overall beer volumes are continuing to decline, however categories which deliver a sense of experience, such as craft lager, speciality spirits and cocktails, are growing.

Our brands and formats

Through our research we have identified five market spaces in which our businesses operate: Upmarket social (MV £8bn); Special (MV£22bn); Family (MV £5bn); Everyday social (MV £2bn); Heartland (MV £4bn).

The market conditions in each of these spaces, as well as an understanding of our brands and concepts, lead us to very clear conclusions about how we operate and how we allocate our capital. We can broadly categorise these market spaces into two: those that represent attractive opportunities for expansionary investment; and those that continue to generate cash flows for the business.

Attractive investment opportunities

The 'family', 'special' and 'upmarket social' segments currently represent attractive opportunities for investment, with the market trend being towards branded food, occasion dining and speciality drinks offerings. These are therefore the segments towards which we allocate the majority of our expansionary capital.

Four of our brands have specifically been identified for further expansion: All Bar One, Harvester, Miller & Carter and Toby Carvery. These qualify as outstanding opportunities for growth due to meeting four key criteria:

- Operating in an attractive market segment;
- Generating existing strong returns on expansionary capital; and
- Having a strong brand proposition.

STRATEGIC REPORT
For the 52 weeks ended 27 September 2014

BUSINESS MODEL (CONTINUED)

Cash generative opportunities

Within the 'heartland' and 'everyday social' segments our businesses generate significant profit and cash, but do not necessarily operate in segments which are expected to grow significantly. These market spaces are characterised by the need to offer great value to our guests in community pubs.

The businesses operating in this sector continue to be valuable to us and to our guests, and as a result we look to grow them through consistently offering great value to our guests, as well as investing maintenance capital expenditure to ensure the amenity meets our guests' standards.

KEY PERFORMANCE INDICATORS

The Company is the principal trading division of the Mitchells & Butlers plc Group and the performance of the Company is monitored as part of the wider Group, using similar key performance indicators. These are discussed in the Annual Report and Accounts 2014 of Mitchells & Butlers plc and include staff turnover, net promoter score, same outlet like-for-like sales growth and incremental return on expansionary capital.

Further explanation of the reasons for the movements can be found in the Annual Report and Accounts 2014 of Mitchells & Butlers plc.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company's Directors consider the risks for the Company to be largely the same as the risks of the Group that are discussed in the Annual Report and Accounts 2014 of Mitchells & Butlers plc. These include, but are not restricted to the following:

Market risks

Consumer taste and brand management

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

In FY 2013, the Company conducted a major piece of consumer research. This research examined macro economic trends, consumer dynamics, competitor and internal brand positioning and the Company's strengths and weaknesses. The business is in the process of rolling out the outputs from this project to refine further its brand positioning and ensure the portfolio's continued relevance for guests.

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

Pricing and market changes

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

The Company's business is focused on the long-term potential of the eating-out market. The Company owns sites across the UK with a wide spectrum of customer offers targeted at different consumer groups and leisure occasions. This range allows the Company to respond to changes in consumer expenditure either by flexing our offerings or by substituting a different brand at a particular location.

STRATEGIC REPORT
For the 52 weeks ended 27 September 2014

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Operational risks

People planning and development

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

The Company makes significant investment in training to ensure that its people have the right skills to perform their jobs successfully. Furthermore, an employee survey is conducted annually to establish employee satisfaction and engagement and compare it with other companies as well as previous 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.

Business continuity and crisis management

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

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

Finance risks

Borrowing covenants

There are risks that borrowing covenants are breached because of circumstances such as:

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

The Company maintains headroom against these risks. The finance team conducts daily cash forecasting with periodic reviews at the Treasury Committee, the roles of which include ensuring that the Treasury Policy is adhered to, monitoring its operation and agreeing appropriate strategies for recommendation to the Board. In addition, regular forecasting and testing of covenant compliance is performed and frequent communication is maintained with the Securitisation Trustee.

Regulatory risks

Failure to operate safely & legally

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

The Company maintains a robust programme of health and safety checks both within its restaurants and pubs and throughout the supply chain. 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.

STRATEGIC REPORT
For the 52 weeks ended 27 September 2014

FUTURE DEVELOPMENT

The Company has developed its business strategy to focus on the growth parts of the eating and drinking-out market. The strategy to achieve this goal has five elements:

- Focusing the business on the most attractive market spaces within eating and drinking out;
- Developing superior brand propositions with high levels of consumer relevance;
- Recruiting, retaining and developing engaged people who deliver excellent service for our guests;
- Generating high returns on investment through scale advantage; and
- Maintaining a sound financial base.

By order of the Board

A W Vaughan
Director
24 November 2014

DIRECTORS' REPORT

For the 52 weeks ended 27 September 2014

The Directors present their report on the affairs of the Company, together with the financial statements and independent auditor's report, for the 52 weeks ended 27 September 2014. The comparative period is for the 52 weeks ended 28 September 2013.

RESULTS AND DIVIDENDS

Turnover for the period was £1,613m (2013 £1,611m) with profit for the period before taxation of £100m (2013 £119m). Taxation charged against the profit for the period was £22m (2013 £12m) leaving a profit after tax of £78m (2013 £107m). At the balance sheet date the Company recorded net assets of £3,037m (2013 £2,978m). During the period, the Company declared and paid dividends of £73m (2013 £61m). No dividends were proposed at the period end (2013 £nil).

SECURITISATION

Since November 2003, the Company has operated within the Mitchells & Butlers securitisation structure. Under this securitisation structure, the Company has borrowed £2,071m (2013 £2,129m) after amortisation, from Mitchells & Butlers Finance plc under an Issuer/Borrower Facility Agreement dated 13 November 2003, amended and restated on 15 September 2006. The borrowings (Term Advances) are secured on the Company's assets and future income streams there from. Mitchells & Butlers Finance plc is a fellow subsidiary within the Group and the issuer of secured loan notes to third party investors for the same amount.

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

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

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

GOING CONCERN

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

DIRECTORS

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

S K Martindale
L J Miles
R M Young (resigned 31 January 2014)
A W Vaughan
G McMahon

DIRECTORS' REPORT
For the 52 weeks ended 27 September 2014

EMPLOYMENT POLICIES

The company employed an average of 32,292 people in 2014 (2013 33,892). Through its diversity and equal opportunities policy, the Company aims to provide an environment which enables people with disabilities to perform better by reviewing any reasonable adjustments that could be made to the duties, hours worked or working environment in respect of a disabled employee or potential employee. Candidates can inform the Company about their disability through the use of an on-line recruitment system, so that reasonable adjustments can be made during any assessment events, allowing them to perform to the best of their ability.

Should any employee of the Company become disabled during their time with it, the Company actively makes reasonable adjustments in accordance with current legislation, including arranging appropriate training, to retain them.

EMPLOYEE ENGAGEMENT

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

- a dedicated portal, 'Our Hub'
- a monthly magazine poster, Frontline News
- an annual conference and awards ceremony
- line manager briefings and
- communications roadshows held by brand across the Company

We provide opportunities for employees to give their feedback to the Company in a number of ways, from team or shift meetings in restaurants and pubs, pulse surveys and an annual Business Forum.

Our employees participate in e-learning, covering food, health and fire safety, Challenge 21 and Intermediate Food Hygiene. We also provide a visual training library which houses short training videos to share best practice tips, health and safety, kitchen and cooking skills.

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

HEALTH & SAFETY

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

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.

A resolution to re-appoint Deloitte LLP will be put to the forthcoming Annual General Meeting.

By order of the Board

A W Vaughan
Director
24 November 2014

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MITCHELLS & BUTLERS RETAIL LIMITED

We have audited the financial statements of Mitchells & Butlers Retail Limited for the 52 weeks ended 27 September 2014 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Statement of Historical Cost Profits and Losses, the Balance Sheet, and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 27 September 2014 and of its profit for the 52 weeks then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Stephen Griggs (Senior statutory auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
24 November 2014

PROFIT AND LOSS ACCOUNT
For the 52 weeks ended 27 September 2014

	Notes	*52 weeks ended 27 September 2014 £m*	*52 weeks ended 28 September 2013 £m*
TURNOVER	2	**1,613**	1,611
Operating costs*	3	**(1,381)**	(1,363)
OPERATING PROFIT		**232**	248
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		**232**	248
Interest receivable and similar income		**-**	1
Interest payable and similar charges	5	**(132)**	(130)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		**100**	119
Tax on profit on ordinary activities	6	**(22)**	(12)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	17	**78**	107

* 2014 includes an exceptional impairment charge in respect of tangible fixed assets of £31m (2013 £24m).

The notes on pages 12 to 25 form an integral part of these financial statements.

All turnover and costs are derived from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the 52 weeks ended 27 September 2014

	52 weeks ended 27 September 2014 £m	*52 weeks ended 28 September 2013 £m*
RETAINED PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	**78**	107
Unrealised gain on revaluation of the property portfolio	**54**	60
TOTAL RECOGNISED GAINS AND LOSSES	**132**	167

STATEMENT OF HISTORICAL COST PROFITS AND LOSSES
For the 52 weeks ended 27 September 2014

	52 weeks ended 27 September 2014 £m	*52 weeks ended 28 September 2013 £m*
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	**100**	119
Realisation of property revaluation surplus on sale of properties	**1**	-
HISTORICAL COST PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	**101**	119
HISTORICAL COST PROFIT RETAINED AFTER TAXATION	**79**	107

The notes on pages 12 to 25 form an integral part of these financial statements.

BALANCE SHEET
At 27 September 2014

	Notes	*27 September 2014 £m*	*28 September 2013 £m*
FIXED ASSETS			
Tangible assets	8	**3,597**	3,571
Investments	9	**21**	21
		3,618	3,592
CURRENT ASSETS			
Stocks	10	**19**	18
Debtors: amounts falling due within one year	11	**1,666**	1,667
Cash at bank and in hand		**78**	99
		1,763	1,784
CREDITORS: amounts falling due within one year	12	**(284)**	(264)
NET CURRENT ASSETS		**1,479**	1,520
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,097**	5,112
CREDITORS: amounts falling due after more than one year	13	**(2,006)**	(2,079)
PROVISIONS FOR LIABILITIES AND CHARGES	15	**(54)**	(55)
NET ASSETS		**3,037**	2,978
CAPITAL AND RESERVES			
Share capital	16, 17	**4**	4
Share premium account	17	**1,561**	1,561
Revaluation reserve	17	**1,238**	1,186
Profit and loss account	17	**234**	227
SHAREHOLDERS' FUNDS		**3,037**	2,978

The notes on pages 12 to 25 form an integral part of these financial statements.

Signed on behalf of the Board

A W Vaughan
Director
24 November 2014

1. ACCOUNTING POLICIES

A summary of the principal accounting policies applied by the Company is set out below.

Basis of accounting
The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain tangible fixed assets. They comply with applicable accounting standards in the United Kingdom.

Accounting reference date
The Company's accounting reference date is 30 September. The Company has drawn up its financial statements for the 52 weeks to 27 September 2014, the Saturday directly preceding the accounting reference date, as permitted by section 390(3) of the Companies Act 2006. The comparative period is for the 52 weeks ended 28 September 2013.

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

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

Cash flow
As permitted under FRS1 (Revised 1996) Cash Flow Statements, the Company has taken advantage of the exemption from preparing a cash flow statement as the Company is a wholly owned subsidiary undertaking of Mitchells & Butlers plc whose financial statements for the 52 weeks ended 27 September 2014 include a consolidated cash flow statement incorporating the cash flows of the Company.

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

Fixed assets and depreciation
The Company revalues the majority of its freehold and long leasehold licensed properties to fair value for accounting purposes, which it reviews at least annually.

Short leasehold properties (properties with an unexpired term of 50 years or less), unlicensed properties and fixtures, fittings and equipment are held at cost less depreciation and impairment.

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

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

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

1. **ACCOUNTING POLICIES (CONTINUED)**

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

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

The cost of fixtures, fittings and equipment is spread, on a straight line basis, over the estimated useful lives of the relevant assets of between 3 and 20 years.

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

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

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

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

Pensions
The Company's profit and loss account 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 FRS 17 Retirement 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 deficit in the Mitchells & Butlers plc pension plans, as measured on an FRS 17 basis, is recorded in the financial statements of Mitchells & Butlers plc, the sponsoring employer of the Mitchells & Butlers pension plans.

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

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

Timing differences not recognised include those relating to the revaluation of fixed assets in the absence of a commitment to sell the assets and the gain on sale of assets to the extent that it is more likely than not that they will be rolled over into replacement assets.

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

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

Group tax relief
It is the policy of the Mitchells & Butlers plc Group for no payment to be made for group tax relief received.

1. ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Share-based payment
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 FRS 20 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 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.

2. TURNOVER ANALYSIS

Mitchells & Butlers Retail Limited is a wholly owned subsidiary of Mitchells & Butlers plc, with its operations falling under a single class of business and all residing within the UK. As such the Company is not required to complete separate disclosure notes under SSAP 25 Segmental Reporting and opts to disclose only a single business segment.

3. OPERATING COSTS

The following amounts are included within operating costs:	*52 weeks ended 27 September 2014 £m*	*52 weeks ended 28 September 2013 £m*
Hire of plant and machinery	16	15
Property operating lease costs	22	23
Movements in the valuation of the property portfolio (note 8)*	31	24
Depreciation of tangible fixed assets (note 8)	96	93

* In the current period £31m (2013 £24m) of movement in the valuation of the property portfolio comprises £3m (2013 £7m) of impairment recognised on short leasehold and unlicensed properties where their carrying values exceed their recoverable amount and £28m charge (2013 £17m) arising from the Company's revaluation of its pub estate.

Fees paid to Deloitte LLP for the audit of the Company's accounts were £0.15m (2013 £0.15m). The fee is borne on behalf of the Company by another Group company. Fees paid to Deloitte LLP and their associates for non-audit services are not disclosed for the Company since the Annual Report and Accounts 2014 of Mitchells & Butlers plc, the ultimate parent of Mitchells & Butlers Retail Limited discloses such fees on a consolidated basis.

4. EMPLOYEES AND DIRECTORS

	52 weeks ended 27 September 2014 £m	*52 weeks ended 28 September 2013 £m*
Employee costs during the period amounted to:		
Wages and salaries	**368**	367
Share-based payments*	**1**	1
Social security costs	**22**	23
Pensions	**3**	2
	394	393

* 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 2014.

Average number of employees
The average number of persons employed by the Company during the period, including part time employees, was 32,292 (2013 33,892).

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 enrols all eligible workers into a Qualifying Workplace Pension Plan.

Defined contribution scheme

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

In the 52 weeks ended 27 September 2014, the Mitchells & Butlers plc Group paid £7m (2013 £5m) in respect of the defined contribution arrangements. The pension charge in respect of the defined contribution arrangements included in the profit and loss account of the Company for the 52 weeks ended 27 September 2014 was £3m (2013 £2m).

Defined benefit scheme

The defined benefit sections of the plans closed to new entrants during 2002 with new members provided with defined contribution arrangements. On 13 March 2011 the defined benefit plan was closed to future accrual. At the same time Mitchells & Butlers plc implemented a revised defined contribution benefit structure. The defined benefit liability relates to these funded plans, together with an unfunded unapproved pension arrangement (the Executive Top-Up Scheme, or MABETUS) in respect of certain MABEPP members. The assets of the plans are held in self-administered trust funds separate from the Company's assets.

4. EMPLOYEES AND DIRECTORS (CONTINUED)

Defined benefit scheme (continued)

Measurement of assets and liabilities

Mitchells & Butlers plc has accounted for pensions in accordance with FRS 17 Retirement Benefits. The valuations used by Mitchells & Butlers plc for FRS 17 purposes are based on the results of the latest full actuarial valuation carried out at 31 March 2013 and updated by the schemes' qualified actuaries to 27 September 2014. Scheme assets are stated at market value at 27 September 2014 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. Full disclosure of assumptions and the valuation is provided in the Mitchells & Butlers plc Annual Report and Accounts 2014.

Minimum funding requirements

The results of the 2013 actuarial valuation show a funding deficit of £572m, using a more prudent basis to discount the scheme liabilities than is required by FRS 17 and on 21 May 2014 Mitchells & Butlers plc formally agreed a 10 year recovery plan with the Trustees to close the funding deficit in respect of its pension scheme liabilities. As a result the Group agreed to increase additional contributions from £40m to £45m per annum for three years effective from 1 April 2013. From 1 April 2016 the contributions are increased by RPI (capped between 0% and 5%). The Group has also agreed to make a further payment of £40m on terms to be agreed with the Trustees by 30 September 2015. Under IFRIC 14 an additional liability is recognised such that the overall pension liability at the period end reflects the schedule of contributions in relation to a minimum funding requirement. The FRS 17 deficit calculated on this basis is £425m (£340 net of deferred tax asset of £85m.)

Directors' remuneration

The five Directors who served during the period were employed by other Group companies and are also Directors of other subsidiary companies of the Mitchells & Butlers plc Group. Five Directors were employed by Mitchells & Butlers Leisure Retail Limited. The Directors received total remuneration of £1.3m (2013 £1.1m) in respect of their services to the Group, but it is not practical to allocate this between each of the subsidiary companies for which they act as a Director. At the period end four (2013 five) of the Directors were members of the Group's defined contribution scheme, with two (2013 two) Directors also holding accrued service within the Group's defined benefit scheme.

The highest paid Director received emoluments of £0.3m (2013 £0.3m), with Company contributions to defined contribution pension schemes of £nil (2013 £nil).

5. INTEREST PAYABLE AND SIMILAR CHARGES

	52 weeks ended 27 September 2014 £m	*52 weeks ended 28 September 2013 £m*
Intercompany interest on Term Advances	**129**	128
Liquidity facility fees reimbursed to Mitchells & Butlers Finance plc	**2**	2
Finance costs external	**1**	-
	132	130

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

Tax charge	*52 weeks ended 27 September 2014 £m*	*52 weeks ended 28 September 2013 £m*
Current tax		
UK corporation tax	**28**	32
Adjustments in respect of prior periods	**(4)**	(12)
Total current tax	**24**	20
Deferred tax		
Origination and reversal of timing differences	**(2)**	(2)
Adjustments in respect of prior periods	**-**	1
Change in tax rate	**-**	(7)
Total deferred tax (note 15)	**(2)**	(8)
Total tax on profit on ordinary activities	**22**	12
Further analysed as tax relating to:		
Operating profit before exceptional items	**24**	24
Exceptional items – current and deferred tax	**(2)**	(12)
	22	12

Tax Reconciliation	*%*	*%*
Standard UK corporation tax rate	**22.0**	23.5
Permanent differences	**(3.5)**	(2.8)
Capital allowances less than depreciation	**2.4**	1.3
Other timing differences	**0.2**	0.2
Adjustments to tax charge in respect of prior periods	**(3.3)**	(10.1)
Exceptional items	**6.7**	4.7
Group relief received for no consideration	**(0.2)**	-
Effective current tax rate	**24.3**	16.8

Factors which may affect future tax charges

The Finance Act 2013 was enacted on 17 July 2013 and reduced the main rate of corporation tax from 23% to 20% from 1 April 2015. The effect of this change has been reflected on the deferred tax balance shown in note 15.

7. DIVIDENDS

During the period, the Company paid dividends of £73m (2013 £61m). Dividend payments are made by the Company to its immediate parent undertaking, Mitchells & Butlers Retail Holdings Limited. There were no dividends proposed at the period end (2013 £nil).

8. TANGIBLE FIXED ASSETS

	Land & buildings £m	*Fixtures, fittings & equipment £m*	*Total £m*
Cost or valuation			
At 28 September 2013	3,252	798	4,050
Additions	34	70	104
Disposals*	(29)	(60)	(89)
Revaluation**	24	(1)	23
At 27 September 2014	**3,281**	**807**	**4,088**
Depreciation			
At 28 September 2013	100	379	479
Provided in the period	18	78	96
Disposals*	(25)	(59)	(84)
At 27 September 2014	**93**	**398**	**491**
Net book value			
At 27 September 2014	**3,188**	**409**	**3,597**
At 28 September 2013	3,152	419	3,571

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

** £31m has been charged (2013 £24m) against current period profits (see note 3), with the balance of £54m gain (2013 £60m) recognised through the revaluation reserve (see note 17).

Cost at 27 September 2014 includes £2m of assets in the course of construction.

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

Short leasehold properties (properties with an unexpired term of 50 years or less), unlicensed properties and fixtures, fittings and equipment are held at cost less depreciation and impairment.

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

The freehold and long leasehold licensed properties were valued at market value, as at 27 September 2014 by CBRE, independent chartered surveyors. The valuation was carried out in accordance with the provisions of RICS Appraisal and Valuation Standards ('The Red Book') assuming each asset is sold as part of the continuing enterprise in occupation individually as a fully operational trading entity. The market value has been determined having regard to factors such as current and future projected income levels, taking account of the location, the quality of the pub or restaurant and recent market transactions in the sector. Changes in these assumptions such as the valuation basis applied in comparable market transactions, or the income level generated by a pub could materially impact the valuation of the freehold and long leasehold land and buildings. It is estimated that a £1 change in the EBITDA of the freehold and long leasehold land and buildings would generate approximately £8 movement in their valuation.

8. TANGIBLE FIXED ASSETS (CONTINUED)

Analysis of land & buildings	*Net Book Value 27 September 2014 £m*	*Net Book Value 28 September 2013 £m*
Freehold properties (at valuation)	**2,872**	2,836
Long leasehold properties (at valuation)	**255**	249
Short leasehold and unlicensed properties (at cost)	**61**	67
Total land & buildings	**3,188**	3,152

Historical cost of properties	*Net Book Value £m*
At 27 September 2014	**1,929**
At 28 September 2013	1,896

9. FIXED ASSET INVESTMENTS

	Subsidiary undertakings £m
Cost	
At 27 September 2014 and 28 September 2013	**32**
Provision	
At 27 September 2014 and 28 September 2013	**11**
Net book value	
At 27 September 2014 and 28 September 2013	**21**

Details of the investments in which the Company holds directly all of the share capital are as follows:

Subsidiary undertaking	*Country of incorporation and operation*	*Holding*	*Proportion of voting rights and shares held*	*Nature of Business*
Browns Restaurants Limited*	England and Wales	Ordinary shares	100%	Non-Trading
Old Kentucky Restaurants Limited	England and Wales	Ordinary shares	100%	Trademark Owner

* This company has subsidiaries which are dormant.

10. STOCKS

	27 September 2014 £m	28 September 2013 £m
Goods held for resale	19	18

The replacement cost of stocks approximates to the value above.

11. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	27 September 2014 £m	28 September 2013 £m
Loan to Mitchells & Butlers Retail Holdings Limited*	1,362	1,362
Loan to Mitchells & Butlers plc*	282	282
Trade debtors	2	1
Prepayments	8	19
Other debtors	2	1
Corporation tax	7	-
Amounts owed from fellow subsidiary undertakings	3	2
	1,666	1,667

* Non-interest-bearing loan.

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	27 September 2014 £m	28 September 2013 £m
Term advances with Mitchells & Butlers Finance plc (note 14)	61	57
Amounts owed to fellow subsidiary undertakings	111	116
Corporation tax	-	2
Other taxation and social security	50	38
Accruals	41	37
Other creditors	21	14
	284	264

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

	27 September 2014 £m	*28 September 2013 £m*
Term advances with Mitchells & Butlers Finance plc (note 14)	**2,006**	2,067
Other creditors*	**-**	12
	2,006	2,079

* Other creditors in 2013 comprised an amount held in respect of the Group's gaming machine VAT claim. A decision was released during 2010 in respect of Rank plc's gaming claim and this ruling fell in the taxpayer's favour. As a result, the Group was able to further pursue its own gaming claim which was submitted in April 2006. HMRC agreed to make a repayment of the existing claim, subject to the Group providing a guarantee to HMRC that, in the event that the existing decision is overturned in a higher court, the amount will be repayable in full. The Rank case was appealed by HMRC to the European Court of Justice (ECJ) in 2011 however, no final decision was reached on gaming and the case was referred back to the UK Upper Tribunal. The case has progressed through the UK courts and a decision was released on 30 October 2013 in favour of HMRC. Rank have subsequently requested to appeal to the Supreme Court which has now been refused by the Court of Appeal. It is expected that Rank will now appeal directly to the Supreme Court with a date for the hearing likely to be the end of 2014/early 2015. As HMRC were successful at the Court of Appeal the £12m refund received has now been repaid with interest.

14. TERM ADVANCES WITH MITCHELLS & BUTLERS FINANCE PLC

Maturity profile	*27 September 2014 £m*	*28 September 2013 £m*
Amounts falling due within one year	**61**	57
Amounts falling due after more than one year:		
Between one and two years	**67**	61
Between two and five years	**242**	223
After five years	**1,697**	1,783
	2,006	2,067
	2,067	2,124

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

- Class A1N floating rate Term Advance for £200,000,000 due 2030;
- Class A2 5.584% Term Advance for £550,000,000 due 2030;
- Class A3N floating rate Term Advance for £250,000,000 due 2030;
- Class B1 5.975% Term Advance for £350,000,000 due 2025;
- Class B2 6.023% Term Advance for £350,000,000 due 2030; and
- Class C1 6.479% Term Advance for £200,000,000 due 2032.

14. TERM ADVANCES WITH MITCHELLS & BUTLERS FINANCE PLC (CONTINUED)

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

- Class A4 floating rate Term Advance for £170,000,000 due 2030;
- Class AB floating rate Term Advance for £325,000,000 due 2033;
- Class C2 floating rate Term Advance for £50,000,000 due 2034; and
- Class D1 floating rate Term Advance for £110,000,000 due 2036.

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

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

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

* The margin on the A4, AB, C2 and D1 notes increased in line with the agreed step-up on the Term Advance payment date in September 2013.

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

- A1N 5.6405%;
- A3N 5.7245%;
- A4 5.3972%;
- AB 5.3092%;
- C2 6.4782%; and
- D1 6.6932%.

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

	27 September 2014 £m	*28 September 2013 £m*
Principal outstanding at start of period	**2,129**	2,184
Principal repaid during the period	**(58)**	(55)
Principal outstanding at end of period	**2,071**	2,129
Deferred issue costs	**(8)**	(9)
Accrued interest	**4**	4
Carrying value at the end of the period	**2,067**	2,124

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

The securitisation is governed by various covenants, warranties and events of default, many of which apply to the Company, being the Group's main operating subsidiary. These include covenants regarding the maintenance and disposal of securitised properties and restrictions on its ability to move cash, by way of dividends for example, to other Group companies. At 27 September 2014, the Company had cash and cash equivalents of £78m (2013 £99m) which were governed by the covenants associated with the securitisation. Of these amounts £36m (2013 £43m), representing disposal proceeds, was held on deposit in an account over which there are a number of restrictions (restricted cash). The use of this cash requires the approval of the securitisation trustee and may only be used for certain specified purposes such as capital enhancement expenditure and business acquisitions.

14. TERM ADVANCES WITH MITCHELLS & BUTLERS FINANCE PLC (CONTINUED)

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

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

15. PROVISIONS FOR LIABILITIES AND CHARGES

	27 September 2014 £m	*28 September 2013 £m*
Deferred tax	48	50
Property provisions	6	5
	54	55

Deferred tax

	27 September 2014 £m	*28 September 2013 £m*
At start of period	50	58
Profit and loss account: current period	(2)	(2)
Profit and loss account: prior periods	-	1
Profit and loss account: change in tax rate	-	(7)
At end of period	48	50
Analysed as tax on timing differences related to:		
Fixed assets	45	48
Deferred gains	3	3
Other	-	(1)
	48	50

No provision has been made for deferred tax on the sale of properties at their revalued amounts or where gains have been or are expected to be deferred against expenditure on replacement assets for an indefinite period until the sale of the replacement assets. The total amount unprovided is estimated at £256m (2013 £258m). It is not anticipated that any such tax will be payable in the foreseeable future.

Property lease provision

	27 September 2014 £m	*28 September 2013 £m*
At 28 September 2013	5	5
Provided in the period	3	2
Utilised in the period	(2)	(2)
At 27 September 2014	6	5

Onerous property provisions represent the expected unavoidable losses on onerous and vacant property leases and comprise the lower of the net rent payable or the operating loss after rental costs. The provision is calculated on a site by site basis, with an estimated period of future losses of up to five years. Other contractual dilapidations costs are also recorded as provisions as appropriate, over a period of five years prior to lease expiry.

16. SHARE CAPITAL

	27 September 2014 £m	*28 September 2013 £m*
Allotted, called up and fully paid		
3,882,000 ordinary shares of £1 each	4	4

17. RECONCILIATION OF MOVEMENT IN RESERVES AND SHAREHOLDERS' FUNDS

	Share capital £m	*Share premium £m*	*Revaluation reserve £m*	*Profit & loss account £m*	*Total £m*
At 29 September 2012	4	1,561	1,126	181	2,872
Unrealised surplus on revaluation of the property portfolio	-	-	60	-	60
Profit	-	-	-	107	107
Dividends	-	-	-	(61)	(61)
At 28 September 2013	4	1,561	1,186	227	2,978
Unrealised surplus on revaluation of the property portfolio	-	-	54	-	54
Profit	-	-	-	78	78
Dividends	-	-	-	(73)	(73)
Disposal of properties	-	-	(2)	2	-
At 27 September 2014	4	1,561	1,238	234	3,037

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

18. FINANCIAL COMMITMENTS

Operating lease commitments

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

	27 September 2014 £m	*28 September 2013 £m*
Within one year	-	1
Between one and five years	2	1
After five years	17	18
	19	20

Capital commitments

	27 September 204 £m	*28 September 2013 £m*
Future capital expenditure contracted for, but not provided for	14	12

19. RELATED PARTY DISCLOSURE

As a wholly owned subsidiary of Mitchells & Butlers plc, the Company has taken advantage of the exemption under FRS 8 Related Party Disclosures not to disclose details of related party transactions or balances with entities which form part of the Group.

20. CONTINGENT LIABILITIES

Pursuant to the securitisation of the business of Mitchells & Butlers Retail Limited on 13 November 2003, the Company is jointly and severally liable with various other companies within the Mitchells & Butlers 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.

The Company has entered into swap arrangements with Mitchells & Butlers Finance plc which convert underlying borrowings with an effective principal, after amortisation, of £1,037m (2013 £1,056m) from floating rate interest payable to fixed rate interest payable. At the period end these had a fair value of £240m (2013 £227m).

21. ULTIMATE PARENT UNDERTAKING

Mitchells & Butlers plc is the ultimate parent undertaking and controlling party of the Company. The immediate parent undertaking of the Company is Mitchells & Butlers Retail Holdings Limited. The only group in which the Company is consolidated is that headed by Mitchells & Butlers plc. Copies of the Group consolidated financial statements of Mitchells & Butlers plc are available from the Company Secretary, Mitchells & Butlers plc, 27 Fleet Street, Birmingham B3 1JP.

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