

Brands
people
love



Annual report
and accounts 2011



Mitchells
& Butlers

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Brands people love

Mitchells & Butlers is the UK's largest operator of restaurants and pubs, with a leading portfolio of well-recognised brands and a high quality freehold estate.



Find out more about our brands at www.mbplc.com



Toby Carvery offers a warm and welcoming environment, with roast meats carved at the iconic deck and served with freshly steamed vegetables, making every visit feel like the perfect Sunday afternoon.

Executive Chairman's statement



Bob Ivell
Executive Chairman

Business highlights

Retained Estate¹

- Total sales **up 4.9%** including food sales **up 7.8%**
- Like-for-like sales **up 2.6%**
- Operating profit **up 1.1%**

Group

- EBITDA returns of **21%** achieved on expansionary capex invested over the last two years
- Net debt reduced by over **£400m**
- Estate valuation **up 2%**

I am delighted to have been appointed Executive Chairman of your Company. I have long regarded Mitchells & Butlers as the best restaurant and pub company in the country and I hope to be able to develop your business successfully in the future.

My experience of over 30 years in the industry has been focused on managing large, food-led restaurant and pub sites. In addition to this I have been Chairman of a number of successful businesses in the leisure sector. My key initial priorities are to appoint a high quality Chief Executive to lead the implementation of the existing strategy and to strengthen the Board with additional Non-Executive Directors.

There have been a number of changes on the Board over the last few years and what Mitchells & Butlers requires now is a sustained period of stability in management and business focus. I believe that my background and experience will enable me to keep the long-term support of the Board and shareholders, ensuring stability for the business to grow.

I would like to recognise the contribution during the year from both John Lovering and Simon Burke as Chairman as well as from Adam Fowle for his significant service to the Company over a number of years. Mike Balfour and Jeremy Blood have also stepped down from the Board and I would like to express my thanks for their service, particularly to Jeremy for his leadership during the period when he assumed the role of Interim Chief Executive.

We welcome Doug Evans to the Board, where I am sure he will play a key role in developing the Company in the future.

The economic conditions continue to be challenging and we continue to work through a prolonged economic downturn whilst also dealing with high levels of cost inflation. Within this context, we are focusing on the delivery of our strategy of growing food sales, focusing on operating margins and rolling out our brands whilst ensuring good returns on capital. I am encouraged by the work completed so far although we still have much to do, and we are therefore implementing a number of business initiatives to accelerate our strategy.

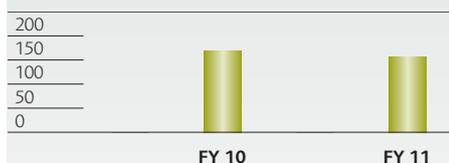
Success in a difficult economic environment requires unrelenting focus on our customers' needs and ensuring that our staff have the tools they need to provide an exceptional quality of service. We are therefore implementing a new initiative that will deliver a more effective organisational structure, reduce the burden on front line staff and deliver an enhanced customer experience. I would like to record my thanks to the 40,000 employees who continue to show immense dedication to their customers, colleagues and to Mitchells & Butlers. Our performance is rooted in their talent and enthusiasm.

Bob Ivell
Executive Chairman

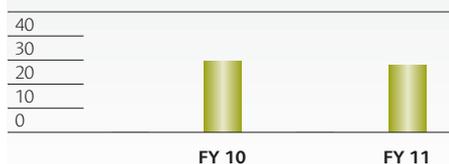
Financial highlights

Group

Adjusted profit before tax¹ down 7.7%
(£m)

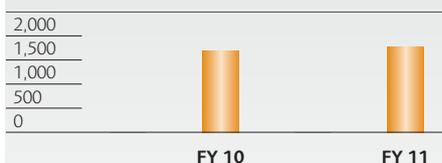


Adjusted earnings per share² down 5.7%
(p)

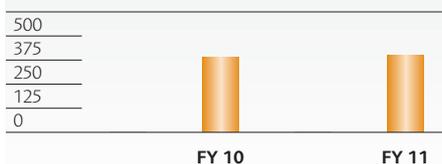


Retained Estate

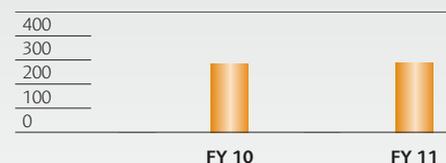
Revenue up 4.9%
(£m)



EBITDA up 1.8%
(£m)



Operating profit up 1.1%
(£m)



Over the last 18 months, the business has made a number of major disposals including 333 non-core pubs, Hollywood Bowl and lodges. As such, it is useful to show the performance of the Retained Estate, which excludes these businesses as well as SCPD, exceptional items and other adjustments.

- 1 Adjusted profit before tax is stated before exceptional items and other adjustments.
- 2 Adjusted earnings per share is profit after tax before exceptional items and other adjustments, divided by the weighted average number of ordinary shares in issue.

Executive Chairman's review



Our vision

To be the UK's preferred choice for informal eating-out, with great brands that satisfy key customer occasions and grow shareholder value.

Our strategy

We will achieve our vision through the consistent delivery of our five strategic imperatives:

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

Investment opportunities

53 new sites were opened in the year, slightly ahead of our target of 50 new openings.

Mitchells & Butlers is the UK's largest operator of restaurants and pubs, with a leading portfolio of well-recognised brands and a high quality freehold estate. Food is our largest selling product having grown by 30% over the last four years and this has helped generate a 16% rise in profits per site over the same period. As a result, the estate has high average weekly sales and annual profitability per site, at over £22k and £180k respectively, both well above the average of our major competitors.

This year has seen good progress towards achieving our strategic objectives despite a challenging consumer and inflationary cost environment. We continue to actively develop and implement a number of sales and cost initiatives that will help further enhance our competitive position.

Sales growth

The Retained Estate delivered 4.9% sales growth in the year with total food sales growth of 7.8% and drinks sales up 2.3%.

On a like-for-like basis, sales growth in the financial year was 2.6% with food like-for-like sales up 4.8% and drink up 1.0%.

Like-for-like sales growth	FY 2010	FY 2011	FY 2012
	Week 1-52	Week 1-52	Week 1-8
Total	2.8%	2.6%	2.0%
Food	4.7%	4.8%	1.8%
Drink	1.4%	1.0%	3.0%

Over the first eight weeks of the new financial year our like-for-like sales grew by 2.0% which reflects the impact of strong early sales, driven by good weather, on an underlying current run rate of around 1%.



Operating profit

The Retained Estate operating profit increased in the year by 1.1% driven by higher sales and increasing restaurant and pub numbers.

Operating margin was down 0.7 percentage points to 16.3% due to a number of inflationary and regulatory pressures. These industry-wide cost rises relate to increases in food, energy, alcohol duty, National Minimum Wage, business rates and the introduction of the Carbon Reduction Commitment. Efficiencies in areas such as purchasing and wastage reduction mitigated some of the impact of these cost pressures.

Brand roll-out

There continue to be good freehold and leasehold investment opportunities to develop new sites across our brand portfolio. As a result 53 new sites were opened in the year, slightly ahead of our target of 50 new openings. These include 21 of the 22 Ha Ha Bar & Grill sites acquired in November 2010, 16 new sites on leisure and retail parks and 16 other, mainly freehold sites. During the year we also converted 48 of our existing sites to our expansion brands.

EBITDA returns on expansionary capital have improved from 19% as at the half year to 21%, with our new openings programme performing especially well. Within this, our investments in leasehold retail and leisure park sites have delivered particularly strong returns of over 30% and we see a good pipeline of opportunities to expand further in this area, alongside our continued investments in new freehold sites.

Business initiatives

The Group is actively implementing a number of business initiatives to underpin future profitability and increase long term shareholder value. These include a reorganisation of the Group's IT infrastructure and an initiative to simplify the central support functions.

Central support processes will be improved by devolving greater responsibility and accountability to customer facing operations, in order to enhance the guest experience and continue to grow the business. The first stage of this programme is the appointment of Robin Young as Operations Director with accountable brand groups reporting directly into him, each led by a Brand Operations Director. Robin was previously Commercial Director and has significant operational and change management experience across a variety of companies. Further changes in operational and central support structures are anticipated and as a result, a consultation period is being initiated within the Group.

Outlook

The consumer environment remains challenging. We expect inflationary cost pressures to persist in the new financial year, especially from energy, duty and food. We will seek to mitigate the impact of these cost increases with the effective implementation of our business initiatives and will continue to take advantage of attractive capital investment opportunities. Overall, Mitchells & Butlers' strong portfolio of assets, brands and operational skills means that it is well positioned to grow further in the year ahead.

16

New sites on leisure and retail parks.

48

48 existing sites converted to expansion brands.

Corporate social responsibility

A comprehensive overview of our corporate social responsibility activities can be found online.



To find out more go to www.mbplc.com/responsibility

Highlights 2011

Our corporate social responsibility highlights this year are:

- **Healthy eating** – Harvester became the first national restaurant brand to place dish by dish calorie information on menus
- **Environment** – We made a commitment to send zero waste to landfill by the end of 2013
- **Drinking responsibly** – Over 1,400 of our restaurants and pubs now include unit information on drinks menus to help promote customer awareness of responsible drinking
- **Active lifestyle** – We began our three year sponsorship of Great Britain Hockey
- **Community** – We raised over £260,000 for charities from corporate donations and through our restaurants and pubs

As one of the leading eating and drinking-out companies in the UK we place a strong emphasis on operating a sustainable and responsible business. As a result, delivering and maintaining an effective social responsibility programme is something we take very seriously.

Good food and great choice

Attitudes towards food and eating-out are changing and our customers want to know more about the food they eat.

We want our customers to be able to make an informed choice and therefore providing detailed nutritional information about food is becoming a welcome addition to the menu when dining out in one of our restaurants.

We already provide this information on our Harvester, Toby Carvery, Crown Carveries and Sizzling Pubs websites and we are continuing to work to provide the same level of information for all our other brands by the end of 2012. In March, Harvester took a further step and became the first national restaurant brand to print dish by dish calorie information on its menus.

At the same time, our chefs work closely with our food suppliers to develop our menus, particularly focusing on improving the nutritional content of each individual item. This year we appointed a dedicated Company nutritionist to assist us with this development, and accelerate our food responsibility programme internally and across our supplier base.

We have identified a number of target areas which are important to us as a leading player in the food industry and which we are focusing on as a priority, including: the increased provision of nutritional information to customers; developing and signposting healthy options; reducing saturated fat in our dishes; developing a salt reduction programme; designing nutritionally balanced young guest menus; and providing customers with allergen guidance. Our food development and trading teams will work alongside our brands and suppliers to progress these priorities over the coming months.

40

Over 40 of our restaurants and pubs across the country entered and won a 'Best Bar None Award' for upholding the highest standards of safety and security.

Responsible service

We recognise we have an inherent duty under our alcohol licences to ensure the responsible operation of our premises for our guests, employees and the wider community. Alongside this we continue to emphasise the pub's key role in providing a safe and controlled environment for the sale and consumption of alcohol.

Our long-standing Alcohol and Social Responsibility Policy reflects these values and incorporates strict controls over the pricing and promotion of our alcoholic products, as well as robust staff training practices.

Through the rigorous implementation of our Challenge 21 scheme, we continue to commit to our staff delivering responsible service across our estate. Last year 675,000 customers were refused service for failing to prove they were over 18 and over 229,000 were refused service as they were deemed to have already had too much to drink. In addition, to reflect the changes in Scottish law, we now have our Challenge 25 programme in place across our Scottish businesses.

The Public Health Responsibility Deal

Mitchells & Butlers has been engaged in the Government's Public Health Responsibility Deal, taking part in both the alcohol and food network groups to develop a series of pledges for action across the industry. Mitchells & Butlers has signed up to a series of alcohol pledges including providing clear unit labelling on our drinks menus, support of alcohol awareness campaigns and taking part in the Challenge 21 scheme. Harvester has also signed up to the calorie labelling pledge and became the first UK-wide restaurant brand to print calories on menus.



We are keen to play our part in working with Government and industry on public health issues and understand that this includes ensuring consumers have the information they need to make informed choices when eating and drinking in our businesses.

Environmental matters
Waste and recycling progress

In the year, we announced we are on target to send zero waste direct to landfill by the end of 2013. Over the last five years our waste collections have transformed from general waste to specialist collections for glass, dry mixed recycling (cardboard, paper, plastics and cans) and more recently the introduction of food waste recycling collections.

The food collection service is currently in operation in around 75% of Mitchells & Butlers' locations with a full roll out planned for later this year. The food waste is sent for processing by the means of anaerobic digestion which converts the food waste into electricity.

This effective programme means there is little other material for Mitchells & Butlers to dispose of at landfill and meets our 80% commitment target made in 2010. Our goal of sending zero waste to landfill by 2013 will have both commercial and environmental benefits now and in the future, and reflects the Company's innovation in managing waste.

Reducing energy consumption

Our established energy management programme remains a key priority and we continue to focus on ensuring that energy efficiency and carbon reduction is a fundamental part of everyday business culture.

Our energy reduction process is based around a core programme of operational best practice and training standards. Alongside this our energy management team co-ordinate a series of projects to help us proactively manage our energy resources and drive down consumption levels.

This year a number of successful trial projects are being extended across our business including the introduction of LED lighting and automated equipment controls. We have also introduced new innovative ideas such as drawing external ambient air through a filter into the cellar to maintain the required temperature, therefore saving significant electricity costs in running cooling equipment during cooler times of the year. Automated meter readings to better manage our water consumption are also being trialled.

Energy recovery is playing an important role. Several businesses are now generating free hot water recovered from cellars and kitchens. Furthermore, building insulation is widely acknowledged as one of the most cost effective methods of saving energy. From our initial trials last year we have seen a significant reduction in energy consumption levels and are therefore placing loft and pipe work insulation into a further 300 businesses.

Healthy eating

Harvester has joined the Government's Public Health Responsibility Deal and become the first UK-wide restaurant brand to print calories on menus.

DRINKAWARE.CO.UK



We are a major funder of the Drinkaware Trust. All our drinks menus now include the Drinkaware strapline and unit of alcohol information. We will continue to support the Trust's work to reduce alcohol misuse and promote responsible drinking.

4,816

We collected around 2,596 tonnes of used cooking oil (for recycling to bio-diesel), saving over 4,816 tonnes of carbon which is the equivalent of removing as much as 2,000 family cars from the road every month.

81,000

We diverted 81,000 tonnes of waste from landfill.

Corporate social responsibility

continued

London 2012 Olympics

Mitchells & Butlers is an official partner of England & Great Britain Hockey, with Harvester the organisation's official restaurant partner.



£200k+

Donated to charity by our brands and employees this year.

Working with communities

Restaurants and pubs are the driving force behind many communities across the UK. Therefore we actively encourage our managers to contribute to their local area and place their businesses at the heart of these communities.

Our annual Heart of the Community awards again showcased the great efforts our staff and customers place in charity and community activity. Our national winner, the Chaddlewood, Plymouth has worked tirelessly over the last year to benefit a number of charities. Hosting fundraising evenings, establishing a pub library, and identifying with local and national causes, led to the pub being named Heart of the Community Pub of the Year.

Charitable activities

Collectively our employees and brands have raised over £200,000 this year for charity, continuing to demonstrate outstanding charitable giving. This year's highlights include:

- following 18 months of national and local fundraising challenges, the Sizzling Pubs team have donated over £130,000 to Help for Heroes; and
- Crown Carveries donated over 6,000 free meals to past and present servicemen, as part of their support for national Armed Forces Day 2011.

In addition, around £65,000 has been donated this year to a variety of worthy causes. This includes a £25,000 donation to our corporate charity partner, Marie Curie Cancer Care, and £40,000 of donations (ranging from approximately £100 to £500 in each case) to over 80 local and national charities covering a

wide range of charitable purposes, including, for example, County Air Ambulance and the MS Society. Our employees have also been supporting Marie Curie through a series of fundraising challenges and have raised an additional £12,000, plus our restaurants and pubs raised a further £25,000 by supporting the charity's Great Daffodil Appeal in March, bringing our total donation for the third year of partnership to £62,000.

The Prince's Trust

For the first time we are also supporting The Prince's Trust and their work with helping young people in the UK. Our Business Development Director, Kevin Todd, has become a member of the charity's Retail Leadership Group. This group is formed of leading companies and individuals from the UK retail sector, primarily focused on raising funds and awareness of The Prince's Trust to help reduce the number of young people who are facing long-term unemployment and social exclusion.

In addition, Vintage Inns is supporting young people directly through The Prince's Trust 'Just the Job' work placement scheme. As part of the programme the young people must complete a two week work placement and Vintage Inns is offering opportunities in its restaurants across the UK.

Olympic support

As part of looking ahead to the London 2012 Olympics, Mitchells & Butlers is an official partner of England & Great Britain Hockey, with Harvester the organisation's official restaurant partner. The three year sponsorship seeks to encourage thousands of people to start playing sport in their local clubs and to support British athletes at the London Olympics.

Financial review



Tim Jones
Finance Director

£172m

Total capital expenditure in the year.

£1,762m

Retained Estate total revenues were up 4.9%.

Retained Estate results

Total revenues were up 4.9% to £1,762m, with food sales up 7.8% and drink sales up 2.3%. Food sales are now our largest income line, representing just over 48% of total sales and remain a key driver of total sales growth. We estimate that nearly three-quarters of our sales relate to guests using our businesses to eat.

Despite an increasingly challenging consumer environment, across the full year, like-for-like sales growth was 2.6%. Food like-for-like sales were up 4.8% mainly driven by increasing food spend per head with the number of meals sold, slightly lower. Drink like-for-like sales were up 1.0% with volumes down, partly on the back of increasing duty costs that have led to higher average drink prices.

There were a number of inflationary cost increases during the year which were partially offset by efficiencies in purchasing and waste reduction. Outlet employment costs as a percentage of sales increased marginally by 0.1 percentage points to 24.8%.

Retained Estate EBITDA grew 1.8% to £398m and EBIT grew 1.1% to £288m. As a result of the cost pressures described above, operating margins were 16.3%.

Total Group results

Other operations including the 333 non-core pubs, Hollywood Bowl and lodges contributed £34m of revenue and £6m of operating profit in the year, against £300m of revenue and £37m of operating profit in the prior year (FY 2010). As a result, total Group revenues were down 9.3% to £1,796m and operating profit before exceptional items was down 8.7% to £294m.

Net interest costs were £138m, £15m lower than last year as a result of lower net debt and the repayment and cancellation of the unsecured medium term and revolving credit facility. Profit before tax and exceptional items was £156m, 7.7% lower than last year.

The pre-exceptional tax charge of £42m is an effective rate of 27% of profit before tax representing a small decrease from the previous year due mainly to the reduction in the UK standard rate of corporation tax.

Earnings per share before exceptional items were 28.0p, down 1.7p against last year. Statutory basic earnings per share after exceptional items were 30.7p. This compares to a 20.6p loss last year primarily due to an exceptional property revaluation charge in that year of £304m.

Internal rent

The system of internal rents implemented at the start of the year is now fully in place and aligns our internal performance measurement across leasehold and freehold sites.

Retained Estate	Operating £m	Property £m	Total £m
Turnover	1,762		1,762
EBITDAR	439		439
External rent	(41)		(41)
Internal rent	(190)	190	-
EBITDA	208	190	398
EBITDA %	11.8%		22.6%

Exceptional items and other adjustments

Total exceptional items and other adjustments decreased profits before tax by £24m and consisted of a charge of £13m relating to the curtailment of the defined benefit pension scheme as at March 2011 (see further below); a £5m net pensions finance charge; a £4m loss on the disposal of properties; and a £2m charge relating to the valuation of the property portfolio and impairment review. An exceptional deferred tax credit of £35m has been recognised which principally represents the tax impact of the above items including a release of deferred tax relating to asset disposals, as well as the impact of the reduction in the UK standard rate of corporation tax.

Dividends

The Board continues to monitor operating cash flow generation and capital investment opportunities before taking a decision on the timing and quantum of the resumption of dividend payments.

Capital expenditure and disposals

Total capital expenditure in the year was £172m, a significant increase from £138m spent in FY 2010. £82m was invested in expansionary capital and £82m was spent maintaining and enhancing the high level of amenity in our restaurants and pubs. A further £8m was spent on infrastructure projects including upgrades to our till systems, updates to the stock and labour scheduling systems and improvements to the energy efficiency of our restaurants and pubs.

In total the business raised £424m through disposals in the year.

Financial review

continued

£336m

Cash flow from operations of £336m was generated by £404m of EBITDA.

£436m

Net cash flow in the year.

Cash flow and balance sheet

A Red Book valuation of our freehold and long leasehold estate has been completed in conjunction with our property valuers in addition to an impairment review on the short leasehold and unlicensed assets. The overall increase of £71m represents a 2% increase in the estate valuation and is reflected as a £2m charge to the income statement and a £73m increase in reserves. We continue to moderate the value of our larger, high profitability sites as there are few comparable industry multiples for these high-performing sites.

Cash flow from operations of £336m was generated by £404m of EBITDA, increased by £5m of non-cash items and reduced by £40m of additional contributions to the pension schemes and £33m due to working capital movements, principally relating to the disposed businesses. After payments for net interest of £134m, tax of £20m, maintenance capital expenditure of £90m and share capital inflows of £2m, free cash flow of £94m was generated in the year. After expansionary capital expenditure and proceeds from disposals, net cash flow in the year was £436m.

As a result, net debt reduced to £1,870m in the year, consisting of net debt within the securitisation of £2,089m and net cash held outside the securitisation of £219m. Total Group net debt is a multiple of 4.7 times Retained Estate EBITDA, down from 5.1 times at the last year end.

Pensions

As reported last year, the defined benefit section of the pension plan ceased future accrual for active employees as at 12 March 2011. Employees were offered a transfer to the defined contribution section of the plan at this date. This transition led to an exceptional charge being recognised during the year of £13m due to the projected RPI increases for deferred pensions being higher than the 2% capped salary increases assumption for active members.

Following the closure of the defined benefit scheme on 12 March, the Company reviewed the appropriate accounting under IFRIC 14 for the Company's funding obligations and as a result of this review has restated the accounting at 25 September 2010, reducing both the pension liability and the related deferred tax asset.

The pre-tax pension deficit as at 24 September 2011 reduced to £37m (FY 2010 deficit of £143m). This reduction is due to an increase in corporate bond yields, which are used to discount scheme liabilities; an increase in the value of the scheme's assets mainly driven by higher government bond prices as yields fell; and additional Group contributions of £40m during the year.

Tim Jones

Finance Director

Cautionary statement

This Financial review has been prepared solely to provide additional information to shareholders to assess the Company's strategies and the potential for those strategies to succeed.

This Financial review contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

The Directors, in preparing this Financial review, have complied with Section 417 of the Companies Act 2006. They have also sought to comply with the guidance set out in the Accounting Standards Board's Reporting Statement: Operating and Financial review.

This Financial review has been prepared for the Company and its subsidiary undertakings as a whole and therefore gives greater emphasis to those matters which are significant to the Company and its subsidiary undertakings when viewed as a whole.

Key performance indicators

It is a key principle of the Group to align the interests of the Directors and other employees with those of its shareholders. Executive remuneration therefore includes measures linked to the KPIs below. Full details of the various schemes in operation are shown from page 26 in the Report on Directors' remuneration.

In FY 2011 Mitchells & Butlers implemented and monitored its performance against its strategy principally through three KPIs.

The performance in the year was as follows:

KPI	KPI definitions	Progress in FY 2011
1. Same outlet like-for-like sales growth	The sales this year compared to the sales in the previous year of all UK managed sites that were trading in the two periods being compared, expressed as a percentage.	Mitchells & Butlers' operational and marketing plans have delivered like-for-like sales growth of 2.6% in FY 2011 compared with the prior year (2.0% in FY 2010).
2. EPS growth	Adjusted earnings per share for the year compared to last year, as reported in the financial statements, expressed as a percentage.	The disposal of the non-core pubs, bowls and lodges resulted in Group operating profits down by 8.7% and EPS by 5.7% in FY 2011 (up 7.3% and 25.8% respectively in FY 2010).
3. Incremental return on expansionary capital	Incremental return is the growth in annual site EBITDA expressed as a percentage of the associated capital investment for sites having received expansionary investment over the last two financial years. For sites which have not been trading for a full 12 months, incremental return is estimated based on an annualisation of actual post-investment trading. Expansionary capital is capital invested to increase the trading area of a site or to materially change the customer offer. Expansionary capital represents investment over and above the maintenance investment cycle for a site.	The performance in this area remains well above our cost of capital. Pre-tax EBITDA returns of 21% are being achieved on the expansionary capital projects carried out over the last two years (31% EBITDA as at FY 2010).



Risks and uncertainties

This section highlights the principal risks that affect the Company, together with the key mitigating activities in place to manage those risks. This does not represent a comprehensive list of all of the risks that the Company faces, but focuses on those that are considered currently to be of most concern.

The processes that are used to identify and manage risks are described in the Internal Control and Risk Management statement on pages 21 and 22.



Market risks	Risk description	Mitigating activities
Consumer taste and brand management	Social and demographic changes are driving the long-term growth in eating-out while at the same time leading to a steady decline in the sales of on-trade drinks without food. These changes, together with other developments in consumer taste may reduce the appeal of Mitchells & Butlers' brands to its customers, especially if the Company fails to anticipate and identify these changes and respond to them adequately and promptly.	On a regular basis, a brand strategy team meets involving marketers, operators and finance as part of a structured programme to improve continuously existing brands and to develop new customer offers. This process is co-ordinated with the capital expenditure programme to ensure that investment is taking place in support of customers' changing needs. The Company uses an online guest satisfaction survey to collect customer feedback. This feedback together with the results of research studies is monitored and evaluated by a dedicated customer insight team to ensure that the relevance to their customers of the Company's brands is maintained.
Pricing and market changes	External influences, such as changes in the general economic climate or competitor activity, could have a detrimental effect on customers' spending patterns and therefore the Company's revenue, profitability and consequently the value of its assets.	Mitchells & Butlers' business is 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. This activity is supported by dedicated Pricing and Revenue Management and Asset Planning teams which analyse and evaluate a range of information including that in respect of competitors.

Operational risks	Risk description	Mitigating activities
Investments in acquisitions and conversions	Mitchells & Butlers' strategy is to increase significantly its number of restaurants to drive further scale advantage and provide strong incremental returns. However, it may not be possible to identify and acquire suitable sites on acceptable terms and investments may not perform as anticipated.	The Company's dedicated acquisitions and asset planning team employs a rigorous project appraisal process in respect of investments, using external advisers where necessary. Post-investment performance of acquired or converted sites investments is monitored in detail.
People planning and development	Mitchells & Butlers' business has a strong customer focus, and as such it is important that it is able to attract, retain, develop and motivate the best people with the right capabilities throughout the organisation.	<p>Remuneration packages are benchmarked to ensure that they remain competitive and a talent review process is used to provide structured succession planning. A long-term incentive plan is in place to align management and shareholder interests.</p> <p>The Company also makes significant investment in training to ensure that its people have the right skills to perform their jobs successfully. Furthermore an employee survey is conducted annually to establish employee satisfaction and engagement and compare it with other companies as well as previous annual surveys. Where appropriate, changes in working practices are made in response to the findings of these surveys.</p>
Energy price increases	Mitchells & Butlers is a large commercial user of gas and electricity. There is a risk that costs increase because of global increases in demand and uncertainty of supply in energy producing nations.	<p>The energy procurement strategy seeks to reduce the risk of cost increases and uncertainty over energy prices by a rolling programme of short and medium-term purchases against forecast requirements.</p> <p>A dedicated energy management team is responsible for optimising energy usage across the organisation by promoting energy efficient working practices via training and educational programmes and by the installation of energy efficient equipment.</p>
Cost of goods price increases	Increases in the price of goods for resale as a result of increases in global demand and uncertainty of supply in producing nations can have a significant impact on the cost base consequently impacting margins.	Mitchells & Butlers leverages its scale to drive competitive cost advantage and collaborates with suppliers to increase efficiencies in the supply chain. The fragmented nature of the food supply industry on the world commodity markets gives the Company the opportunity to source products from a number of alternative suppliers in order to drive down cost. The Company continually evolves the composition of menus and retail prices in order to optimise value to the customer as well as profits for the Company.
Business continuity and crisis management	Mitchells & Butlers relies on its food and drink supply chain and the key IT systems underlying the business to serve its customers efficiently and effectively. Supply chain interruption, IT system failure or crises such as terrorist activity or the threat of disease pandemic might restrict sales or reduce operational effectiveness.	The Company has in place crisis and continuity plans that are tested and refreshed regularly.
Finance risks	Risk description	Mitigating activities
Borrowing covenants	<p>There are risks that borrowing covenants are breached because of circumstances such as:</p> <p>i) A change in the economic climate leading to reduced cash inflows, or</p> <p>ii) A material change in the valuation of the property portfolio.</p>	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 Board 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.
Pension fund deficit	In March 2011 the defined benefit section of the pension plan ceased future accrual for active employees. However, scheme members retain their benefits accrued prior to March 2011. There is a risk that the pension fund deficit increases because of poor investment performance, lower long-term bond yields or increased life expectancy, leading to unexpected increases in funding requirements by the Company. The triennial actuarial valuation carried out as at 31 March 2010 resulted in a deficit of £400m.	Mitchells & Butlers maintains a close dialogue with the Trustees of the pension schemes and three of the 12 Trustees are appointed by the Company. In addition to the regular service contributions, the Company has already made significant additional contributions to reduce the funding deficit. As a result of the triennial valuation conducted last year the Company agreed to increase annual additional contributions from £24m to £40m. The funding levels and contribution requirements will be reviewed again at the next triennial valuation as at March 2013.
Regulatory risks	Risk description	Mitigating activities
Health and safety	A major health and safety failure could lead to illness, injury or loss of life or significant damage to the Company's or a brand's reputation.	Mitchells & Butlers maintains a robust programme of health and safety checks both within its restaurants and pubs and throughout the supply chain. The dedicated Safety Assurance team uses a number of technical partners including food technologists, microbiologists and allergy specialists to ensure that our food procedures are safe. Regular independent audits of trading sites are performed to ensure that procedures are followed and that appropriate standards are maintained. Food suppliers are required to meet the British Retail Consortium Global Standard for Food Safety and are subject to regular safety and quality audits. Comprehensive health and safety training programmes are in place.

Governance

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Brands people trust



At Vintage Inns discover real ales, real fires and pub food as hearty and warming as the welcome, with beautifully kept beer gardens perfect for soaking up the Great British summer.





Key

- a – A Non-Executive Director
- b – A member of the Audit Committee
- c – A member of the Remuneration Committee
- d – A member of the Nomination Committee
- e – A member of the Executive Committee

Ages correct at 21 November 2011.

1. Bob Ivell, aged 59

Executive Chairman^{abcde}

Appointed as Executive Chairman in October 2011 having been Interim Non-Executive Chairman since July 2011. Bob has over 30 years of extensive food and beverage experience with a particular focus on food-led, managed restaurants and pubs. He is currently Senior Independent Director of Britvic plc, Chairman of David Lloyd Leisure Limited and a Board adviser to the Delphi Partnership, a corporate finance advisory firm. He was previously a main board director of S&N plc in the role of Chairman and Managing Director of the Scottish & Newcastle retail division. He has also been Chairman of Regent Inns, Chairman of Park Resorts, Chairman of Next Generation Clubs, Managing Director of Beefeater Restaurants, one of Whitbread's pub restaurant brands and a director of The Restaurant Group.

2. Ron Robson, aged 48

Deputy Chairman^{abcd}

Appointed as Deputy Chairman in July 2011, Ron is currently a senior executive with Tavistock Group and is a nominated shareholder representative of Piedmont Inc. He was previously Chief Financial Officer of Tamar Capital Partners and Group Finance Director of Kenmore, both property investment and management groups. From 2005 to 2008 he was Group Finance Director of The Belhaven Group plc, a listed pub retailing, brewing and drink distribution group. Prior to that he held a number of senior finance roles including Group Finance Director of a listed shipping and logistics group, and trained as a Chartered Accountant with Arthur Andersen.

3. Tim Jones, aged 48

Finance Director^e

Tim was appointed Finance Director in October 2010. Prior to joining the Company, he held the position of Group Finance Director for Interserve plc, a support services group. Previously, he was Director of Financial Operations at Novar and held senior financial roles both in the UK and overseas in the logistics company, Exel plc. Tim is a member of the Institute of Chartered Accountants in England and Wales and obtained an MA in Economics at Cambridge University.

4. Doug Evans, aged 49

Company Secretary & General Counsel^e

Appointed to the Board in October 2011 having held the position of Company Secretary & General Counsel since he joined Mitchells & Butlers in January 2011. Doug was previously at Royal Mail where he was Group General Counsel. Prior to this he held Company Secretary & Corporate Legal Director positions at Exel plc and Engen Limited.

5. Douglas McMahon, aged 46

Non-Executive Director^{abcd}

Appointed a Non-Executive Director in October 2010, Douglas is a Managing Director of Tavistock Group and is a nominated shareholder representative of Piedmont Inc. He has two decades of marketing experience, previously serving as Chairman and CEO of Publicis New York, General Manager of J. Walter Thompson New York and Chief Marketing Officer at Consumer News and Business Channel (CNBC).

The Board's responsibilities in respect of the Company include:

- Determining the overall business and commercial strategy
- Identifying the long-term objectives
- Reviewing the annual operating budget and financial plans
- Determining the basis of allocation of capital
- Considering all matters relating to a major change of policy

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The Directors present their report and the audited financial statements for the year ended 24 September 2011. A review of the businesses, activities and future developments of the Company and its subsidiaries is given on pages 1 to 11 which, together with the Corporate governance statement and Audit Committee report, are incorporated by reference into this report and, accordingly, should be read as part of this report.

Details of the Group's policy on addressing risks are given on pages 10 to 11 and 21 to 22 and details about financial instruments are shown in note 19 to the financial statements. These sections include information about trends and factors likely to affect the future development and performance of the Group's business. The Company undertakes no obligation to update forward-looking statements.

Associated key performance indicators for the Group's business are set out on page 9.

This report has been prepared for, and only for, the members of the Company as a body, and no other persons. The Company, its Directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed.

Principal activities

Mitchells & Butlers is the leading operator of managed restaurants and pubs and, as at 24 September 2011, had an estate of 1,605 sites including 65 leased and franchised sites in the UK, and 39 restaurants in Germany. In order to reshape Mitchells & Butlers into a food-led business centred around core concepts which have significant growth potential and facilitate withdrawal from the more price sensitive drinks-led businesses, the Company disposed of 333 non-core pubs on 14 November 2010, following the approval of the disposal by shareholders at a General Meeting held on 26 October 2010.

Possible offer from Piedmont Inc.

On 12 September 2011, Piedmont Inc. announced that it was considering making an offer for Mitchells & Butlers, at 230p per share. The Independent Directors of Mitchells & Butlers plc (comprising Bob Ivell, Jeremy Blood and Tim Jones) announced that they would not recommend an offer, if made, on such terms.

On 13 October 2011, Piedmont Inc. announced that it had decided not to proceed with an offer for the Company.

Share capital

The Company's issued ordinary share capital as at 24 September 2011 comprised a single class of ordinary shares of which 409,467,418 shares were in issue and listed on the London Stock Exchange (25 September 2010 408,953,036 shares). Details of movements in the issued share capital can be found in note 22 to the financial statements on page 67. Each share carries the right to one vote at general meetings of the Company. All issued shares are fully paid up and carry no additional obligations or special rights. There are no restrictions on transfers of shares in the Company, or on the exercise of voting rights attached to them, other than those which may from time to time be applicable under existing laws and regulations. At the year end, 429 shares were held in Treasury and the Company's employee share trusts held 2,539,988 shares.

Shareholders passed a resolution at the 2011 AGM to permit the Directors to undertake market purchases of up to 40,904,986 of the Company's shares. This authority will expire at the earlier of the 2012 AGM or 27 March 2012. No shares have been purchased by the Company during the year.

A resolution proposed at the 2011 AGM to permit the Directors to allot shares, together with shares and other relevant securities in connection with a rights issue, was not passed. Between the AGM and the end of the year, shares with a nominal value of £33,421 were allotted under all-employee schemes as permitted under Section 549 Companies Act 2006. No securities were issued in connection with a rights issue during the year.

The Company is not aware of any agreements between shareholders that restrict the transfer of shares or voting rights attached to the shares.

Interests of the Directors and their immediate families in the issued share capital of the Company as at the year end are on page 33 of the Report on Directors' remuneration.

Dividends

No final dividend will be paid in respect of the year ended 24 September 2011 (2010 nil). No interim dividend was paid during the year (2010 nil).

Interests in voting rights

As at the date of this report, the Company was aware of the following interests in its shares:

Shareholder	Ordinary shares	% of capital*
Piedmont Inc.	93,463,000	22.82%
Elpida Group Ltd	85,020,885	20.76%
Baillie Gifford	21,688,977	5.30%
Legal & General	14,533,901	3.55%
Smoothfield Holding Limited	14,185,101	3.46%

* Using the total voting rights figure announced to the London Stock Exchange on 31 October 2011 of 409,502,671.

Directors

Details of the Directors as at 21 November 2011 and their biographies are shown on page 13. The Directors at 24 September 2011 and their interests in shares are shown on page 33. Changes to the Board of Directors during the year and subsequent to the year end are set out in full in the Corporate governance statement on page 19.

The powers of the Company's Directors are set out in the Company's Articles of Association. Directors are appointed in accordance with the Articles of Association, which require any mid-year appointee to stand for reappointment at the next AGM. Directors who wish to continue in their role must submit themselves for re-election at an AGM at least every three years and, in addition, such further Directors (if any) must retire by rotation to bring the number retiring by rotation up to one-third of the number of Directors in office at the date of the notice of meeting. Any Director appointed during the year will not be counted in determining the one-third who should stand for re-election by rotation. Over and above this, at the 2012 AGM, the Company will comply with provision B.7.1 of the UK Corporate Governance Code which states that all directors of FTSE 350 companies should be subject to annual election by shareholders.

Under a Deed of Appointment between Piedmont Inc. and the Company, Piedmont Inc. has the right to appoint two shareholder directors to the Board whilst it owns 22% or more of the issued share capital of the Company, and the right to appoint one shareholder director to the Board whilst it owns more than 16% of the Company but less than 22%. In the event that Piedmont Inc. owns less than 16% of the Company any such shareholder directors would be required to resign immediately.

Directors' indemnity

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year, and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors. No indemnity is provided for the Company's auditor.

Conflicts of interest

The Company's Articles of Association permit the Board to consider and, if it sees fit, authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Company ('Situational Conflicts'). The Board has a formal system in place for Directors to declare Situational Conflicts to be considered for authorisation by those Directors who have no interest in the matter being considered. In deciding whether to authorise a Situational Conflict, the non-conflicted Directors are required to act in the way they consider would be most likely to promote the success of the Company for the benefit of all shareholders, and they may impose limits or conditions when giving authorisation, or subsequently, if they think this is appropriate. The Board believes that the systems it has in place for reporting and considering Situational Conflicts continue to operate effectively.

Related party transactions

Internal controls are in place to ensure that any related party transactions involving Directors or their connected persons are carried out on an arm's length basis and are properly recorded.

Essential contracts or arrangements

The Company has a number of contractual agreements with suppliers in support of its business activities. Whilst the loss of some of these arrangements may cause temporary disruption, none are considered to be essential to the business of Mitchells & Butlers.

Change of control provisions

There are no significant agreements which contain provisions entitling other parties to exercise termination or other rights in the event of a change of control of the Company.

There are no provisions in the Directors' or employees' service agreements providing for compensation for loss of office or employment occurring because of a takeover.

The trustee of the Mitchells & Butlers Share Incentive Plan will invite participants on whose behalf it holds shares to direct it how to vote in respect of those shares, and if there is an offer for the shares or other transaction which would lead to a change of control of the Company, participants may direct it to accept the offer or agree to the transaction. The trustee of the Mitchells & Butlers Employee Benefit Trust may, having consulted with the Company, vote or abstain from voting any shares it holds or accept or reject an offer relating to shares in any way it sees fit, and it may take all or any of the following matters into account: the long-term interests of beneficiaries, the non-financial interests of beneficiaries, the interests of beneficiaries in their capacity as employees or former employees, the interests of future beneficiaries and considerations of a local, moral, ethical, environmental or social nature.

The rules of certain of the Company's share plans include provisions which apply in the event of a takeover or reconstruction, as set out below.

Provisions which apply in the event of a takeover or reconstruction

Share plan	Provision in the event of a takeover
Long-Term Incentive Plan	Awards vest pro rata to performance and time elapsed, alternatively participants may be allowed or required by the Company to exchange their awards
Performance Restricted Share Plan	Awards vest pro rata to performance and time elapsed and lapse six months later
Short-Term Deferred Incentive Plan	Bonus shares may be released or exchanged for shares in the new controlling company
Executive Share Option Plan	Options may be exercised within six months of a change of control
Sharesave Plan	Options may be exercised within six months of a change of control
Share Incentive Plan	Free shares may be released or exchanged for shares in the new controlling company

Directors' report

continued

Employment policies

The Group employed an average of 40,728 people in 2011 (2010 44,600).

Through our diversity and equal opportunities policy, the Company aims to provide an environment which enables job candidates with disabilities to perform better by seeking, where possible, to make reasonable adjustments. Through our online recruitment system, candidates can inform us direct about their disability, so that we can make adjustments, enabling them to perform to the best of their ability on assessment events.

Should any employee of the Company become disabled during their time with us, we actively make adjustments, including arranging appropriate training, to keep the employee with us. We take steps both to increase the effectiveness of employees with disabilities and to ensure they are in a suitable role. A more detailed account can be found in our separately published Social Responsibility Review 2011 at www.mbplc.com/responsibility

Employee communication

Mitchells & Butlers communicates with its employees on a frequent basis and in a number of ways to suit their different working patterns. This includes:

- a corporate intranet website;
- a dedicated external website for retail employees;
- email news alerts;
- letters;
- line manager briefings;
- e-newsletters for mobile workers;
- a monthly magazine poster, *What's Cooking*, for the retail estate; and
- communications forums or road shows held by function or brand across the Company.

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 and pubs, discussion groups with Executive Committee members, annual surveys for all employees and the Mitchells & Butlers' annual Business Forum. Business Forum representatives collect questions from employees across the Company and put them to a special Executive Committee. The questions and answers are published in *What's Cooking*.

Employee engagement

What's the Big Idea?, is a company-wide initiative where employees are encouraged to submit their ideas for improving the business, environmentally, financially or otherwise, via our dedicated employee website.

Our retail teams participate in e-learning, covering food, health and fire safety, Challenge 21 and Intermediate Food Hygiene.

Mitchells & Butlers is keen to encourage greater employee involvement in the Group's performance through share ownership. It operates two HMRC approved all-employee plans, which are the Sharesave Plan and the Share Incentive Plan. The Company also operates four other plans on a selective basis, which are the Performance Restricted Share Plan, the Short-Term Deferred Incentive Plan, the Executive Share Option Plan and the Long-Term Incentive Plan. Further details on the plans are set out in the Report on Directors' remuneration.

During the year, the Company has remained within its headroom limits for the issue of new shares for share plans as set out in the rules of the above plans. The Company uses an employee benefit trust to acquire shares in the market when appropriate to satisfy share awards in order to manage headroom under the plan rules. No shares in the Company were purchased by the employee benefit trust during FY 2011.

Policy on payment of suppliers

Mitchells & Butlers plc is a holding company and has no trade creditors.

The policy of its principal operating subsidiaries is to agree particular terms with major suppliers and to abide by those terms, subject to satisfactory performance by the supplier. Amounts owed to other suppliers are settled in the month following that in which the subsidiaries receive a valid invoice. The average number of days the Group takes to pay an invoice is 38 days (2010 40 days).

Charitable donations and charitable activity

The Company continues to support community initiatives and charitable causes, full details of which are given on page 6 in the Corporate social responsibility section of this Annual report.

Political donations

The Company made no political donations during the year and intends to maintain its policy of not making such payments. It will, however, as a precautionary measure to avoid inadvertent breach of the law, seek shareholder authority at its 2012 AGM to make limited donations or incur limited political expenditure, although it has no intention of using the authority.

Funding and liquidity risk

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

The current funding arrangements of the Group consist primarily of the securitised notes issued by Mitchells & Butlers Finance plc (and associated liquidity facility). Further information regarding these arrangements is included in note 18. The terms of the securitisation contain a number of financial and operational covenants. Compliance with these covenants is monitored by Group treasury.

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 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. Committed facilities outside of the securitisation are sized to ensure that the Group can meet its medium-term anticipated cash flow requirements.

Going concern

The financial statements which appear on pages 36 to 81 have been prepared on a going concern basis as, after making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. See note 31.

Additional information for shareholders

Following the implementation of the EU Takeovers Directive into UK law, the Company is required to provide certain information for shareholders. The information required is included elsewhere within this Directors' report. In addition the Company is required to inform shareholders that the Company's Articles of Association may be amended by special resolution at a general meeting of shareholders.

Annual General Meeting

The notice convening the Annual General Meeting is contained in a circular sent to shareholders with this report and includes full details of the resolutions proposed.

Auditor

Following a competitive tender during the year, Deloitte LLP was appointed as auditor to the group and Ernst & Young LLP resigned. Deloitte LLP has expressed its willingness to continue in office as auditor of the Company and its reappointment will be put to shareholders at the AGM.

Post-balance sheet events

There are no post-balance sheet events to report.

By order of the Board

Doug Evans

Director & Company Secretary

21 November 2011

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 year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company 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 accounts 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 the parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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.

In preparing the group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Disclosure of information to auditor

Having made the requisite enquiries, so far as the Directors are aware, there is no relevant audit information (as defined by Section 418(3) of the Companies Act 2006) of which the Company's auditor is unaware and each Director has taken all steps that ought to have been taken to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the Board

Doug Evans
Director & Company Secretary
21 November 2011

Corporate governance statement

Corporate governance statement

The Board is responsible for ensuring compliance with the 2010 UK Corporate Governance Code (the 'Code'), which is issued by the Financial Reporting Council and which is available at www.frc.org.uk. This includes reviewing internal controls, ensuring that there is an appropriate balance of skills and experience represented on the Board and maintaining relations with shareholders.

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The Board recognises the importance of good corporate governance in creating a sustainable, successful and profitable business and details are set out in this Statement of the Company's corporate governance procedures and application of the principles of the Code.

Explanation for non-compliance with parts of the Code

For part of the year the Board was not fully constituted in compliance with the Code, which impacted governance in the form of Board and Committee appointments and membership and the frequency of Committee meetings. It meant that for certain periods, as described more fully below, Committee functions were undertaken by the full Board.

As a result, the Company did not comply with the following provisions of the Code during the periods specified below:

A.1.1 Matters reserved for the Board.

A.4.1 Senior Independent Director (from 11 February 2011 to year end).

A.4.2 Chairman's performance appraisal.

B.1, B.1.2 and B.2.4 Composition of the Board and appointments (from 11 February 2011 to year end).

B.2.1, C.3.1 and D.2.1 Constitution of the Nomination, Audit and Remuneration Committees respectively (from 11 February 2011 to year end).

B.6.1, B.6.2 and B.6.3 (Board and committee evaluation and external evaluation).

As previously announced, it is the Board's intention to appoint additional Non-Executive Directors to the Board. Notwithstanding the Code non-compliance in relation to the composition of the Board, the Board believes all other aspects of the Company's corporate governance are in compliance with the Code, as set out in this report.

The information required by Disclosure and Transparency Rule ('DTR') 7.1 is set out in the Audit Committee report on pages 23 to 24. The information required by DTR 7.2 is set out in this Corporate governance statement, other than that required under DTR 7.2.6 which is set out in the Directors' report on pages 14 to 17.

Board composition

A table listing all changes to the Board of Directors during the year is on page 20. On 26 October 2011, Bob Ivell was appointed as Executive Chairman, Jeremy Blood resigned as a Director, and Doug Evans was appointed as a Director.

Board and Committee structure

The Board and Committee structure operates as set out below.

The Board

The Board is responsible to shareholders for the strategic direction, development and control of the Group. It approves strategic plans and annual capital and revenue budgets. It reviews significant investment proposals and the performance of past investments and maintains an overview and control of the Group's operating and financial performance. It monitors the Group's overall system of internal controls, governance and compliance and ensures that the necessary financial and human resources are in place for the Company to meet its objectives.

The Executive Directors may be permitted to accept one external non-executive director appointment with the Board's prior approval and as long as this is not likely to lead to conflicts of interest.

The Company Secretary's responsibilities include ensuring good information flows to the Board and its committees and between senior management and the Non-Executive Directors. The appointment and removal of the Company Secretary is a matter reserved for the Board. The Company Secretary is responsible through the Chairman, for advising the Board on all corporate governance matters and for assisting the Directors with their professional development. This includes regular corporate governance and business issues updates, as well as the use of operational site visits and the provision of external courses where required. During the year, the Company Secretary facilitated a comprehensive induction for each of the newly appointed Directors, tailored to individual requirements and including guidance on requirements of, and Directors' duties in connection with, the Code and the Companies Act 2006 as well as other relevant legislation.

During FY 2011 there were 10 scheduled Board meetings including a two day off-site meeting which considered the Group's strategy and a further three Board meetings which were called at short notice. The table below shows attendance levels at the Board and Committee meetings held during the year; the numbers in brackets confirm how many meetings each Director was eligible to attend during the year.

Where a Director was unable to attend a meeting, they were provided with all the papers and information relating to that meeting and were able to discuss issues arising directly with the Chairman and Chief Executive. There are 10 Board meetings currently planned for FY 2012.

Attendance levels at Board and Committee meetings

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Current Directors who served during the year				
Bob Ivell	6 (6)	N/A	N/A	N/A
Tim Jones	11 (11)	N/A	N/A	N/A
Douglas McMahon	9 (11) ¹	N/A	N/A	N/A
Ron Robson	13 (13)	N/A	N/A	N/A
Former Directors who served during the year				
Michael Balfour	9 (11)	2 (2)	4 (4)	2 (2)
Jeremy Blood*	13 (13)	2 (2)	4 (4)	N/A
Simon Burke	10 (11)	2 (2)	3 (4)	2 (2)
Adam Fowle	4 (6)	N/A	N/A	1 (2)
Sir Tim Lankester	4 (4)	1 (1)	3 (4)	2 (2)
John Lovering	4 (5)	N/A	N/A	2 (2)

* Left post year-end.

¹ Douglas McMahon was unable to attend two Board meetings convened at short notice.

Corporate governance statement

continued

Directors

The following were Directors of the Company during the year ended 24 September 2011:

		Date appointed	Date of change of role
Current Directors who served during the year			
Bob Ivell	Independent Non-Executive Director**	09/05/11	14/07/11
	Interim Chairman***	14/07/11	–
Tim Jones	Finance Director	18/10/10	–
Douglas McMahon*	Non-Executive Director	15/10/10	–
Ron Robson*	Non-Executive Director	22/01/10	–
	Deputy Chairman	14/07/11	–
Former Directors who served during the year			
Michael Balfour	Independent Non-Executive Director	28/01/10	13/07/11
Jeremy Blood	Independent Non-Executive Director**	28/01/10	15/03/11
	Interim Chief Executive	15/03/11	26/10/11
Simon Burke	Independent Non-Executive Director**	28/01/10	11/02/11
	Deputy Chairman**	02/02/10	11/02/11
	Senior Independent Director**	02/02/10	11/02/11
	Chairman	11/02/11	13/07/11
Adam Fowle	Managing Director, Restaurants	01/10/07	12/04/09
	COO	12/04/09	21/05/09
	Acting CEO	21/05/09	03/08/09
	Chief Executive	03/08/09	15/03/11
Sir Tim Lankester	Independent Non-Executive Director	16/05/03	27/01/11
John Lovering	Chairman	28/01/10	11/02/11

* Nominated shareholder representative of Piedmont Inc.

** Independent while in the role specified.

*** Subsequently appointed as Executive Chairman on 26 October 2011.

Details of the Executive Directors' service contracts are set out on page 29 and on the Company's website. The Chairman and the Non-Executive Directors have letters of appointment which are available for inspection at the registered office of the Company during normal business hours and at the place of the Annual General Meeting from at least 15 minutes before and until the end of the meeting.

The provisions in the Articles concerning Directors' re-election are set out on page 15 of the Directors' report. All the Company's Directors will stand for re-election at the 2012 AGM in accordance with provision B.7.1 of the Code and their biographical details as at 21 November 2011 are set out on page 13, including their main commitments outside the Company. Further information is below.

Chairman

Bob Ivell is the Executive Chairman of the Board and, prior to this (from 14 July 2011 to 26 October 2011), was Interim Chairman of the Board. He ensures that appropriate communication is maintained with shareholders. He has responsibility for running the Board and for ensuring that all Directors are fully informed of matters relevant to their roles. He is also Chairman of the Nomination Committee and the Remuneration Committee.

Chief Executive

Jeremy Blood was the Interim Chief Executive until his resignation on 26 October 2011 and a search is under way for his replacement. The Chief Executive has responsibility for implementing the strategy agreed by the Board and for the executive management of the Group. Bob Ivell has assumed the duties of the Chief Executive until an appointment is made.

Senior Independent Director

Simon Burke was the Senior Independent Director until 11 February 2011. There has been no Senior Independent Director since then.

Non-Executive Directors

The Company has experienced Non-Executive Directors on its Board. Bob Ivell was considered to be independent upon his appointment on 9 May 2011, in that he was free from any business or other relationship which could materially influence his judgement and he represented a strong source of advice and independent challenge. On his appointment as Interim Chairman on 14 July 2011 (and subsequently as Executive Chairman on 26 October 2011), as set out in the Code, the independence test is no longer appropriate to apply to his position. Ron Robson and Douglas McMahon were appointed as representatives of the Company's largest shareholder, Piedmont Inc., and are therefore not regarded as independent in accordance with the Code.

Other than their fees which are disclosed on page 30, the Non-Executive Directors received no remuneration from the Company during the year. When Non-Executive Directors are considered for appointment, the Nomination Committee will take into account their other responsibilities in assessing whether they can commit sufficient time to their prospective directorship.

All Directors are briefed by the use of comprehensive papers circulated in advance of Board meetings and by presentations at the meetings in addition to receiving minutes of previous meetings. Their understanding of the Group's business is enhanced by business specific presentations and operational visits to the Group's businesses. Separate strategy meetings and meetings with senior executives are also held throughout the year. The training needs of Directors and of members of the Board's Committees are formally considered on an annual basis and are also monitored throughout the year.

Committees

Each Board Committee has written terms of reference approved by the Board, which are available on the Company's website.

Audit Committee

Details of the Audit Committee are included in the Audit Committee report on pages 23 and 24 and are incorporated by reference into this Statement.

Remuneration Committee

Details of the Remuneration Committee are included in the Report on Directors' remuneration on pages 25 to 33 and are incorporated by reference into this Statement.

Nomination Committee

The Nomination Committee is responsible for nominating, for the approval of the Board, candidates for appointment to the Board. It is also responsible for succession planning and reviewing the output of the Board effectiveness review. A detailed description of the duties of the Nomination Committee is set out within its terms of reference which can be viewed at www.mbplc.com

The following were members of the Nomination Committee during the year:

	Member at 25/09/10 (or later date of appointment)	Leaving date	Member at 24/09/11
Michael Balfour	Y	13/07/11	–
Jeremy Blood ¹	15/02/11	–	Y
Simon Burke ²	Y	13/07/11	–
Adam Fowle	Y	15/03/11	–
Bob Ivell ³	19/08/11	–	Y
Sir Tim Lankester	Y	27/01/11	–
John Lovering ⁴	Y	11/02/11	–
Douglas McMahon	19/08/11	–	Y
Ron Robson	19/08/11	–	Y

1 Resigned from the Company on 26/10/11.

2 Chairman from 15/02/11.

3 Chairman from 19/08/11.

4 Chairman to 11/02/11.

The Company Secretary is secretary to the Nomination Committee.

Between 13 July 2011 and the year end, the Company did not comply with provision B.2.1 of the Code in respect of the Nomination Committee consisting of a majority of independent Non-Executive Directors. Notwithstanding this, when the Nomination Committee was not fully constituted its role was taken on by the full Board, so that there was at all times a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. Directors did not attend the relevant meetings where their new roles were being discussed.

The Nomination Committee met twice during the year to consider succession planning and recommended the initial appointment of Bob Ivell. The Board subsequently considered his appointment as Interim Chairman and later Executive Chairman, taking into account his other external commitments none of which were regarded as significant. The initial appointment process for Bob Ivell was facilitated by an external recruitment agency. The previous Chairman was not involved in the selection or appointment of Bob Ivell as Interim Chairman. Where a Director was unable to attend a meeting and the meeting did not relate to their own appointment, they were provided with all the papers and information relating to that meeting and were able to discuss issues arising direct with the chair of the Committee and the Company Secretary.

General Purposes Committee

The General Purposes Committee comprises any two Executive Directors or any one Executive Director together with a senior officer from an agreed and restricted list of senior executives. It is always chaired by a Director. It attends to business of a routine nature and to the administration of matters, the principles of which have been agreed previously by the Board or an appropriate committee.

Disclosure Committee

The Disclosure Committee considers and decides upon matters brought to its attention, which would be likely to give rise to an obligation to make a market announcement under the FSA Listing Rules. It comprises the Chief Executive, the Finance Director, the Director of Corporate Affairs and the Company Secretary & General Counsel.

Executive Committee

The Executive Committee, which is chaired by the Chief Executive (currently by the Executive Chairman), consists of the Executive Directors and certain other senior executives, namely Robin Young (Operations Director), Saudagar Singh (HR, Service & Productivity Director), Gary John (Property Director) and Kevin Todd (Business Development Director).

The Executive Committee meets at least every four weeks and has day-to-day responsibility for the running of the Group's business. It develops the Group's strategy and annual revenue and capital budgets for Board approval. It reviews and recommends to the Board any significant investment proposals.

This Committee monitors the financial and operational performance of the Group and allocates resources within the budgets agreed by the Board. It considers employment issues, ensures the Group has an appropriate pool of talent and develops senior management manpower planning and succession plans.

Independent advice

Members of the Board may take independent professional advice in the furtherance of their duties and they have access to the advice and services of the Company Secretary & General Counsel, the Company's legal advisers and external auditor.

Code of Ethics

The Company has implemented business conduct guidelines describing the standards of behaviour expected from those working for the Company, via a Code of Ethics (the 'Ethics Code'). Its aim is to promote honest and ethical conduct throughout our business, and it applies to all corporate employees. The Ethics Code requires:

- compliance with all applicable rules and regulations that apply to the Company and its officers;
- the ethical handling of actual or apparent conflicts of interest between internal and external, personal and professional relationships; and
- that any hospitality from suppliers must be approved, with a presumption against its acceptance.

The Ethics Code was updated during the year to reflect the Bribery Act 2010 that came into effect on 1 July 2011. The Company takes a zero tolerance approach to bribery and has developed an extensive Bribery Policy. The Code requires employees to comply with the Bribery Policy.

The Company also offers an independently administered, confidential, whistleblowing hotline for any employee wishing to report any concern that they feel is inappropriate to raise with their line manager. All whistleblowing allegations are reported to and considered by the Executive and Audit Committees.

The Board takes regular account of social, environmental and ethical matters concerning the Company through regular reports to the Board and presentations to the Board at its strategy meetings. The Company Secretary is responsible for ensuring that Directors are made aware of and receive training in respect of such matters. The Board is also responsible for the Company's internal risk management system, for which more details can be found in the Risks and uncertainties section of this report, and below.

Internal control and risk management

The Board has overall responsibility for the Group's system of internal control and risk management and for reviewing its effectiveness. In order to discharge that responsibility, the Board has established the procedures necessary to apply the 2010 UK Corporate Governance Code for the year under review and to the date of approval of the Annual report. Such procedures are regularly reviewed by the Board.

The key features of the Group's internal control and risk management systems include:

- An overall governance framework including:
 - i. clearly defined delegation of authority and reporting lines;
 - ii. a comprehensive set of policies and procedures that employees are required to follow; and
 - iii. the Group's Code of Ethics, in respect of which an annual confirmation of compliance is obtained from all corporate employees.
- Processes, including monitoring by the Board, in respect of:
 - i. strategic plan achievement;
 - ii. financial performance within a comprehensive financial planning, accounting and reporting framework;
 - iii. capital investment and asset management performance, with detailed appraisal, authorisation and post-investment reviews; and
 - iv. consumer insight data and actions to evolve brands and formats to ensure that they continue to be appealing and relevant.

Corporate governance statement

continued

- The Risk Committee, a sub-committee of the Executive Committee, which assists the Board and Executive Committee in managing the processes for identifying, evaluating, monitoring and mitigating risks. The Risk Committee, which met three times during FY 2011, is chaired by the Company Secretary & General Counsel and comprises Executive Committee members and other members of senior management from a cross section of functions including the Finance Director. Its primary responsibilities are to:

- i. advise the Executive Committee on the Company's overall risk appetite and strategy, taking account of the current and prospective operating, legal, macroeconomic and financial environments;
- ii. advise the Executive Committee on the current and emerging risk exposures of the Company in the context of the overall risk appetite and strategy;
- iii. promote the management of risk throughout the organisation;
- iv. review and monitor the Company's capability and processes to identify and manage risks;
- v. consider the identified key risks faced by the Company and new and emerging risks and consider the adequacy of mitigation plans in respect of such risks; and
- vi. where mitigation plans are inadequate, recommend improvement actions.

The Group risks identified by the processes that are managed by the Risk Committee are described in 'Risks and uncertainties' on pages 10 to 11.

- Examination of business processes on a risk basis including reports from the Internal Audit function, known as Group Assurance, which reports directly to the Audit Committee.

The Group also has in place systems, including policies and procedures, for exercising control and managing risk in respect of financial reporting and the preparation of consolidated accounts. These systems, policies and procedures:

- govern the maintenance of accounting records that, in reasonable detail, accurately and fairly reflect transactions;
- require reported information to be reviewed and reconciled, with monitoring by the Audit Committee; and
- provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with International Financial Reporting Standards ('IFRS') or UK Generally Accepted Accounting Principles, as appropriate.

In accordance with the Code, during the year the Board completed its annual review of the effectiveness of the Group's risk management and internal control systems, including financial, operational and compliance controls. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and, as such, it can only provide reasonable and not absolute assurance against material misstatement or loss. In that context, in the opinion of the Board, the review did not indicate that the system was ineffective or unsatisfactory and to the extent that weaknesses in internal controls were identified, the Board confirms that necessary remedial action plans are in place. The Board is not aware of any change to this status up to the approval of this Annual report.

With regard to insurance against risk, it is not practicable to insure against every risk to the fullest extent. The Group regularly reviews both the type and amount of external insurance that it buys with guidance from an external independent body, bearing in mind the availability of such cover, its cost and the likelihood and magnitude of the risks involved.

Shareholder relations

The Board recognises that it is accountable to shareholders for the performance and activities of the Company. The Company formally updates the market on its financial performance at least five times a year, at the half year and full year results in May and November respectively, the interim management statements in January and July and a pre-close trading update in September. The content of these updates is posted and webcast on the Company's website, together with general information about the Company so as to be available to all shareholders. The Company has a regular programme of meetings with its larger shareholders which provides an opportunity to discuss, on the back of publicly available information, the progress of the business. On a more informal basis, the Chairman, the Chief Executive and the Finance Director regularly report to the Board the views of larger shareholders about the Company, and the Senior Independent Director (when one is in place) and other Non-Executive Directors are available to meet shareholders on request and are offered the opportunity to attend meetings with larger shareholders.

The AGM provides a useful interface with shareholders, many of whom are also customers. All proxy votes received in respect of each resolution at the AGM are counted and the balance for and against, and any votes withheld, are indicated. The chairmen of the Audit, Remuneration and Nomination Committees attend to answer questions.

Board effectiveness evaluation

Recognising the non-compliance in relation to the composition of the Board and its committees as outlined in this report, it was considered inappropriate to conduct a Board and committee effectiveness evaluation in relation to FY 2011. A Board and committee effectiveness evaluation will be carried out during FY 2012.

Going concern

The Directors' statement as to going concern can be found on page 17.

Audit Committee report

The Audit Committee's responsibilities include:

- Reviewing the processes for detecting fraud, misconduct and internal control weaknesses
- Reviewing the effectiveness of the Group Assurance function
- Overseeing the relationship with the external auditors

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Explanation for non-compliance with parts of the UK Corporate Governance Code (the 'Code')

The reasons for non-compliance with certain parts of the Code are set out in the Corporate governance statement on page 19. Specifically, the Audit Committee did not comply with the relevant parts of the Code set out below, for the periods noted:

Provision C.3.1 (constitution of the Audit Committee)

There were not at least three independent Non-Executive Directors on the Committee between 11 February 2011 and year end;

The Company Chairman was a member of the Committee between 11 February 2011 and year end;

The Company Chairman was Committee Chairman between 11 February 2011 and 13 July 2011;

The Committee included two members who were not considered independent between 19 August 2011 and year end; and

The current Committee Chairman (appointed 19 August 2011) is not considered independent in accordance with the Code.

The Company complied with the remaining Code provisions which impact the Audit Committee throughout the year ended 24 September 2011.

The Board believes that other than the breaches above relating to composition compliance arising from lack of quoracy, it has discharged its responsibilities in line with the Code, in that normal Audit Committee functions were dealt with by the full Board.

The Committee recognises the recommendations within the FRC Guidance on Audit Committees concerning the Chairman of the Company not being a member of the Audit Committee, but wishes to retain the knowledge, experience and judgement of the Chairman of the Board, Bob Ivell, pending the appointment of additional Non-Executive Directors to the Committee.

A copy of the Committee's terms of reference is publicly available within the Investor section of the Company's website.

Role of the Audit Committee

The Committee's principal responsibilities are to:

- review the Company's public statements on internal control, risk management and corporate governance compliance prior to their consideration by the Board;
- review the Company's processes for detecting fraud, misconduct and control weaknesses and to consider the Company's response to any such occurrence;
- review management's evaluation of any change in internal controls over financial reporting;
- review with management and the external auditor any financial statements required under UK legislation before submission to the Board;
- establish, review and maintain the role and effectiveness of the Internal Audit function, known as Group Assurance, whose objective is to provide independent assurance over the Group's significant processes and controls, including those in respect of the Group's key risks;
- assume direct responsibility for the appointment, compensation, resignation, dismissal and the overseeing of the external auditor, including review of the external audit, its cost and effectiveness;

- pre-approve non-audit work to be carried out by the external auditor and the fees to be paid for that work together with the monitoring of the external auditor's independence;
- oversee the process for dealing with complaints received by the Group regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and
- adopt and oversee a specific Code of Ethics for all corporate employees which is consistent with the Company's overall statement of business ethics.

Audit Committee composition

The Committee is chaired by Ron Robson. As a Chartered Accountant Mr Robson has current and relevant financial experience and is considered to be the Committee's financial expert. The previous Chairman, Simon Burke, as a Chartered Accountant, had current and relevant financial experience and was considered to be the Committee's financial expert. See table below.

The Committee regularly invites the external auditor, the Chief Executive, the Finance Director and the Director of Group Assurance to its meetings. Bob Ivell is taking on the executive duties of the Chief Executive until an appointment is made. The Company Secretary & General Counsel attends and is secretary to the Committee. Discussions are held in private when appropriate.

Audit Committee frequency

The Committee normally meets at least four times a year. During FY 2011, for the reasons described in the Corporate governance statement, only two meetings of the Committee were held and attendance is set out in the Corporate governance statement on page 19. As outlined in the Corporate governance statement, the full Board reviewed Audit matters at two other meetings.

Audit Committee composition

	Member from	Member to	Qualification
Michael Balfour	02/02/10	13/07/11	ICAEW
Jeremy Blood	02/02/10	15/03/11	
Simon Burke ¹	02/02/10	13/07/11	ICAEW
Bob Ivell	19/08/11	current	
Sir Tim Lankester	Pre-25/09/10	27/01/11	
Douglas McMahan	19/08/11	current	
Ron Robson ²	19/08/11	current	ICAS

1 Chairman from 02/02/10 to 13/07/11.
2 Chairman from 19/08/11 to date.

Audit Committee report

continued

Audit Committee process

The Committee discharges its responsibilities, as defined in its terms of reference, through a series of Audit Committee meetings throughout the year at which detailed reports are presented for review. The Committee commissions reports from external advisers, the Director of Group Assurance, or Company management, either after consideration of the Company's major risks or in response to developing issues. The Committee normally meets privately with the external auditor and the Director of Group Assurance at least four times a year and liaises with Company management in considering areas for review.

During the year, the Committee, or the Board where the Committee was not fully constituted, considered the following matters:

- interim and full year financial results;
- the scope and cost of the external audit;
- non-audit work carried out by the external auditor and trends in the non-audit fees in accordance with the Committee's policy to ensure the safeguard of audit independence;
- the arrangements in respect of Group Assurance including its resourcing and external support and the scope of the annual internal audit plan;
- the external auditor's interim and full year reports;
- periodic internal control and assurance reports from Group Assurance;
- the removal of the previous external auditor and appointment of the current external auditor, in respect of which the Committee's recommendation was based on the results of a formal tender process;
- reports on allegations made via the Group's whistleblowing procedures and the effectiveness of these procedures;
- management representations granted to the external auditor and the Company's procedures to ensure all relevant audit information has been disclosed;
- major changes in the Group's internal controls;
- the co-ordination of the internal and external audit functions;
- the Group's framework for the identification and control of major risks, its risk and assurance mitigation plan and the annual assessment of control effectiveness;
- compliance with the Code of Ethics;
- corporate governance developments;
- the suitability of the Group's accounting policies and practices; and
- the status of material litigation involving the Group.

The Company's public financial statements are reviewed by the Committee in advance of their consideration by the Board.

External auditor's independence

The Committee has adopted a policy on the use of the external auditor for non-audit work. The external auditor may carry out certain specified non-audit work, in areas that have been pre-approved by the Committee, up to a monetary limit of half the audit fee per transaction and subject to an annual total cap of no more than the audit fee. Any other work for which management wishes to utilise the external auditor must be approved, subject to a *de minimis* limit, by the Committee or its chairman, or for engagements up to a monetary limit of £50,000, subject to an annual total cap of £100,000 by the Finance Director. Acquisition and vendor due-diligence may only be provided by the External Auditor if specifically approved by the Committee on a case by case basis in advance of any engagement commencing.

The pre-approved services may be summarised as follows:

- audit related services, including work related to the annual Group financial statements audit, subsidiary audits and local statutory accounts; and
- certain specified tax services, including tax compliance, tax planning and tax advice.

The External Auditor may not provide non-audit services in respect of:

- forensic investigation work into the affairs of the Group where there is the possibility of an accounting error or control breach in a period that has been reported on by the External Auditor;
- audit of the Group's Pension schemes;
- design of executive remuneration policy and incentive schemes, and recruitment services in respect of key management positions;
- tax planning assignments where the success of the tax scheme is reliant on the Group changing, or adopting, a specific accounting policy;
- bookkeeping or other services related to the accounting records or financial statements of the Group;
- financial information systems design and implementation;
- appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
- actuarial services;
- internal audit outsourcing services;
- management functions or human resources;
- broker or dealer, investment adviser, or investment banking services; and
- legal services and expert services which may have an impact on the Company's financial performance or result in the auditor acting on behalf of the Company.

The Company operates a co-sourcing model in respect of the provision of internal audit services. Prior to their appointment as external auditor, Deloitte provided:

- internal audit services working in conjunction with the in house Group Assurance function; and
- other services in respect of compliance with tax regulations and provision of interim staff.

Full details regarding non-audit work are set out in note 4 to the financial statements on page 47.

Following their appointment as external auditor, Deloitte were replaced in respect of the provision of internal audit services by PricewaterhouseCoopers LLP.

Approved by the Board

Ron Robson
Chairman of the Audit Committee
21 November 2011

Report on Directors' remuneration

The Remuneration Committee's responsibilities include:

- Determining the framework for executive remuneration
- Ensuring that remuneration is aligned with and supports the Company's strategic plan
- Maintaining positive dialogue with investors on remuneration matters
- Ensuring that the remuneration structure supports the attraction, retention and motivation of high calibre executives

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This report has been prepared by the Remuneration Committee (the 'Committee') on behalf of the Board and has been approved by the Board. The report complies with the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008, the UK Corporate Governance Code (the 'Code') and with the Financial Services Authority Listing Rules. Throughout this report, references to the year are to the 52 week period ended 24 September 2011. A resolution to approve this report will be proposed at the Annual General Meeting ('AGM').

Explanation for non-compliance with parts of the Code

The Committee did not comply with Provision D.2.1 of the Code because it included two members who were not considered independent between 19 August 2011 and year end, and because the current Committee Chairman (appointed 19 August 2011) is not considered independent in accordance with the Code.

UNAUDITED INFORMATION

Remuneration Committee

The Committee's terms of reference are available on the Company's website at www.mbplc.com/investors and on request.

The Committee consults with the Chairman and/or the Chief Executive (except where conflicted) to set the remuneration policy and determines the individual remuneration package for each Executive Director and the Chairman. The Committee considers the level and structure of remuneration for senior executives below the Board and has oversight of remuneration and terms of employment across the Company. In addition the

Committee makes recommendations to the Board on any new long-term incentive plans, but such plans are approved by the Board as a whole and, where necessary, by shareholders.

The Non-Executive Directors who have served on the Committee during the year are shown in the table below.

The Committee meets as often as necessary to fulfil its duties and met four times in the period to 13 July 2011. From 13 July 2011 the business which would normally be considered by the Committee has been considered by the Board as a whole. Members of management including Jeremy Blood, the former interim Chief Executive, the HR, Service & Productivity Director and the Director of Compensation & Benefits are invited to attend meetings where appropriate. They are not present when matters affecting their own remuneration arrangements are decided. The Chairman does not attend Board or Committee meetings when his remuneration is under review.

During the year the Committee addressed a number of key issues including the review and approval of all awards made under the Company's share plans; a comprehensive review of incentive schemes for FY 2012 and determined the appointment and termination arrangements for Executive Directors and certain senior managers.

The Committee received external advice during the year from PricewaterhouseCoopers LLP ('PWC') as well as from the Company's general legal advisers, Freshfields Bruckhaus Deringer LLP. During FY 2011 PWC has provided tax services and advice to the Company on Non-Executive Directors' fees.

Remuneration policy

Executive Directors' remuneration is designed to attract, retain and motivate Directors of the calibre required to improve the Company's performance, to align their interests with those of shareholders and provide the potential to earn significant rewards where significant shareholder value has been delivered.

The Committee is regularly updated on pay and conditions applying to other Group employees. Pay and conditions across the Group are taken into account when setting Executive Directors' remuneration.

The main elements of the remuneration package in 2011 and anticipated for 2012 are:

- base pay and benefits;
- annual bonus of which at least 50% is, at the discretion of the Committee, deferred into Company shares under the Mitchells & Butlers Short-Term Deferred Incentive Plan (the 'STDIP'), details of which are set out on page 27;
- participation in the Mitchells & Butlers Long-Term Incentive Plan 2010 (the 'LTIP'), details of which are set out on page 27; and
- a defined contribution pension, or cash allowance.

When setting incentive arrangements the Committee considers whether there is any element which could potentially encourage excessive risk taking. The Committee is satisfied that there is an appropriate balance of fixed and variable pay and that whilst variable pay targets are demanding they are unlikely to result in executives taking inappropriate levels of risk.

The Committee is satisfied that the remuneration policy supports the Company's business strategy and is aligned to the long-term success of the Company. Through the LTIP, the Committee has chosen to align growth in variable pay with shareholder interests by ensuring that long-term incentive payments only apply where there is growth in shareholder value underpinned by improved financial performance as measured by Adjusted Earnings per Share ('EPS') growth.

Member	Period	
	From	To
Bob Ivell (Chairman from 19 August)	09/05/11	To date
Douglas McMahon	19/08/11	To date
Ron Robson	19/08/11	To date
Michael Balfour (Chairman to 13 July)	02/02/10	13/07/11
Jeremy Blood	02/02/10	15/03/11
Simon Burke	02/02/10	13/07/11
Sir Tim Lankester	16/05/03	27/01/11

Report on Directors' remuneration

continued

Overview of Executive Directors' remuneration

For FY 2012 the Committee has reviewed the structure of the annual performance bonus to ensure that bonus payments are more directly aligned to shareholder return and to the financial performance of the Company. Accordingly the entire annual bonus will be payable on the achievement of Adjusted Earnings per Share (EPS) targets.

Element	Purpose	Delivery	Summary details
Salary	Provides a sound basis on which to attract and retain executives. To reflect the market value of the role and individual performance.	Payable in cash, four weekly throughout the year. Pensionable.	Reviewed annually, with any increases normally effective from 1 January.
Annual Performance Bonus (cash)	Provides a direct link between business performance and reward.	Up to 50% of the annual performance bonus is payable in cash, normally in December each year. Non pensionable.	Earnings potential up to a maximum of 100% of base salary, of which 100% (2011 55%) is based on the financial performance (EPS) (2011 operating profit) of the Group.
Deferred Share Award ('STDIP')	To align annual performance with shareholder value and provide an element of retention.	At least 50% of the annual performance bonus will normally be awarded as a deferred bonus share award. Non pensionable.	At the discretion of the Committee, at least 50% of the annual bonus will normally be deferred and released in equal tranches 12 and 24 months after deferral. Dividend accrued shares may be awarded on vested shares.
Long-Term Incentive ('LTIP')	To reward growth in shareholder value over a three year period.	One off conditional award over a share of a bonus pool the value of which will be determined by the growth in the market capitalisation of the Company. Non pensionable.	50% of the award will vest in November 2013 and 25% in each of November 2014 and 2015 subject to the achievement of market capitalisation and EPS growth performance conditions. Participants will receive an amount equal to any dividends payable in respect of vested shares in the period from the end of the Performance Period until the relevant vesting date.
Pension (or cash allowance)	To provide a market competitive retirement benefit.	Deferred cash (i.e. pension) or cash allowance. Cash is paid four weekly; pension is accrued over the year.	Contributory defined contribution scheme or cash allowance in lieu of Company pension contributions once statutory limits are reached.
Other benefits	To provide market competitive benefits.	Benefits in kind or cash allowance. Non pensionable.	Benefits include private medical insurance, life assurance and use of a Company owned vehicle or cash equivalent.

Base salary and benefits

Executive Directors' salaries are reviewed annually; any increase will normally take effect from 1 January. When setting base salary the Committee takes account of a range of factors including market trends, pay in relevant comparator organisations and pay increases across the Group.

Following the pay freeze applied in January 2010 the Committee decided that the overall base pay of members of the Executive Committee (including Executive Directors) who were in post at 1 October 2010, should be increased by 2.0% from January 2011.

Adam Fowle's salary increased from £550,000 to £561,500. No increase applied to Tim Jones who joined the Company on 18 October 2010 on a base salary of £375,000 per year. From 26 October 2011 Mr Jones' annual base salary increased to £400,000 in recognition of additional responsibilities attaching to his role from that date. Mr Jones' salary is next due to be reviewed in January 2013.

In addition to base salary, Executive Directors also receive benefits in kind which comprise a car or cash allowance, life assurance and private healthcare.

Annual bonus and Short-Term Deferred Incentive Plan ('STDIP')

The Committee sets performance conditions each year to determine the amount of bonus payable to Executive Directors under the annual bonus plan. In FY 2011 the maximum bonus payable is 100% of salary (2010 100%). Bonus payments are not pensionable.

Performance conditions in FY 2011 are based on the achievement of operating profit (55%), Group business objectives (35%) and personal business objectives (10%).

A bonus of between 40% and 55% of base salary is payable on achievement of between 100% and 105% of target operating profit performance. Group and personal business objectives are set across a range of measures including sales, guest satisfaction, staff stability and return on investment.

At least 50% of the bonus payable is deferred and converted into a conditional award of Bonus Shares. Bonus Shares are released in two equal amounts, 12 and 24 months after deferral (the 'Release Dates'). Where a participant becomes entitled to Bonus Shares he may also be awarded Dividend Accrued Shares (shares with a value as close as possible to and no more than the value of the gross ordinary dividends that would have been paid or payable by reference to the record dates between the award date and the Release Date).

If a participant leaves the employment of the Group before the Release Dates, then in certain circumstances he may lose entitlement to Bonus Shares as well as to any Dividend Accrued Shares.

The STDIP includes a clawback provision which gives the Committee discretion to determine that an award should be reduced or should lapse where it is subsequently confirmed that the original results on which the bonus was calculated contained a material misstatement of the Company's financial results.

For the award in respect of FY 2008 the Company matched Bonus Shares on a 1:1 basis ('Matching Shares') subject to satisfaction of a performance condition as set out below. No Matching Share award vested in FY 2010 or in FY 2011.

Outstanding award

Performance period	Matching Share performance measure	Target	Performance	Vesting
Commencement of FY 2009 to end of FY 2011	EPS growth in excess of RPI.	33.3% of the maximum award vests where average Adjusted EPS growth in excess of the Retail Price Index ('RPI') is equivalent to 12 percentage points over the three year performance period; 100% of the award vests where average EPS growth in excess of RPI is equivalent to at least 27 percentage points. There is straight line vesting between these points.	Average EPS fell by 12.6%. Growth in RPI was 8.9%.	None of the award will vest.

Performance measurement under the annual bonus plan is reviewed and certified by the Company's auditor.

Long-term incentives

Long-Term Incentive Plan 2010 ('LTIP')

The LTIP was approved by shareholders on 29 July 2010 and is currently the only long-term incentive plan operated for Executive Directors. Details of awards made to Executive Directors are set out on page 32. The LTIP is intended to be operated only once.

For an award to vest the base market capitalisation of the Company must grow, over the three year performance period, by an amount equivalent to at least 10% per annum (the 'Hurdle Amount'). The Hurdle Amount will be adjusted downwards to take account of any dividends paid over the performance period. If the market capitalisation does not exceed the Hurdle Amount at the end of the performance period, awards will lapse. The Hurdle Amount based on the market capitalisation at the date awards were granted was £1,622m. The market capitalisation at the end of the performance period will be calculated using the average share price for the three months prior to 29 July 2013.

Vesting of awards will also be dependent on growth in Adjusted EPS being at least equal to the growth in the RPI plus 12 percentage points over the Company's three financial years commencing 26 September 2010. Vesting is generally dependent on the employee being in service with the Company on the vesting date.

If the performance conditions are met, the value of the LTIP pool (being 10% of the excess over the Hurdle Amount) will be converted into shares using the market value of a share at the end of the performance period. 50% of any shares awarded will vest in November 2013. The balance will vest in two equal amounts after a further 12 and 24 months respectively.

The LTIP is intended to provide senior management with the potential to earn significant reward but only if significant shareholder value, underpinned by improvements in financial performance, is created.

On 29 November 2010 Tim Jones was granted a Conditional Award over 4.64% of the LTIP pool. Tim's award is pro-rated (from a maximum of 5%) to take account of his appointment date. Adam Fowle's share (10%) of the LTIP pool lapsed when his employment with the Group ended on 31 May 2011.

Although shares will be delivered under the LTIP, subject to achievement of the performance target, it is not possible to identify the number of shares in which each participant will have an interest until the end of the performance period in November 2013.

On a takeover, scheme of arrangement, merger or other corporate reorganisation, the number of shares received (if any) will be calculated by applying the performance conditions as at the date of the event. Time pro-rating will apply. Alternatively, participants may be allowed or required by the Company to exchange their awards for awards in another company.

Participants will also receive a payment in cash or shares of an amount equal to the dividends which would have been payable on crystallised shares received during the period from the end of the performance period until vesting.

Awards under the LTIP are not pensionable. Performance measurement under the LTIP, which is not retested, will be reviewed and certified by the Company's auditor.

Report on Directors' remuneration

continued

Performance Restricted Share Plan ('PRSP')

The PRSP provides for an award of nominal cost options with a value of up to 200% of an Executive Director's basic annual salary. No options were granted in FY 2011. Details of options outstanding under the PRSP are set out on page 32.

The vesting of options under the PRSP is dependent on the achievement of performance conditions which for each of the performance periods is set out below. Awards under the PRSP are not pensionable.

TSR was chosen as a measure as it aligns the interest of management with that of shareholders; to reduce the potential volatility in vesting levels for only small differences in TSR performance the Committee determined that for the FY 2009 to FY 2012 award TSR would be measured against an index and subject to a 'floor' such that if there has been no share price appreciation over the performance period the TSR element will not be exercisable.

The average excess of CROCCE over WACC focuses management on increasing the cash returns generated by the business and reducing the overall cost of funding to the Company, thereby maximising the spread between the two and increasing shareholder value.

EPS growth is a measure which reflects movement in shareholder value; EPS was chosen as an alternative to the average excess of CROCCE over WACC as it is a simpler and more transparent measure of alignment with the interests of shareholders.

At the discretion of the Committee, a nominal cost option over shares equivalent to the value of dividends accruing over the performance period may be granted in respect of shares which have vested.

Performance measurement under the PRSP, which is not retested, is reviewed and certified by the Company's auditor.

Outstanding awards

Performance period	Performance measures	Target	Performance	Vesting
1 October 2009 to 30 September 2012	50% of award measured against TSR with an absolute share price 'floor'.	25% vests if performance matches the comparator group index; 100% vests for index outperformance of 1.35. There is straight line vesting between these points.	To be determined at vesting in November 2012.	–
	50% of award measured against EPS growth versus RPI. Positive EPS growth is required for any vested EPS award to be capable of exercise.	25% vests if EPS growth in excess of RPI is at least 12 percentage points. 100% vests if EPS growth in excess of RPI is at least 33 percentage points. There is straight line vesting between these points.		
1 October 2008 to 30 September 2011	50% of award measured against relative TSR.	20% of the award vests for 5th position in the comparator group ¹ ; 100% vests for 1st position with straight line vesting between these points. Below 5th position the award lapses.	6th in the TSR comparator group; the average excess of CROCCE versus WACC was 4.03 percentage points.	None of the TSR element will vest and 48.3% of the CROCCE versus WACC element will vest.
	50% of award measured against the average excess of CROCCE* versus WACC**, post tax.	20% of the award vests where the average excess is at least 3.5 percentage points; 100% vests where the excess is at least 5.0 percentage points with straight line vesting between these points. Below 3.5 percentage points the award lapses.		
1 October 2007 to 30 September 2010	As 2008 to 2011 above.	Relative TSR – as 2008 to 2011 above. CROCCE versus WACC – as 2008 to 2011 above save that 20% of the award vests where the average excess is at least 4.0 percentage points; 100% vests where the excess is at least 5.5 percentage points. Below 4.0 percentage points the award lapses.	7th in the TSR comparator group; the average excess of CROCCE versus WACC was 4.23 percentage points.	None of the TSR element vested and 32.3% of the CROCCE versus WACC element vested.

TSR comparator group: Enterprise Inns; Fuller, Smith & Turner; Greene King; JD Wetherspoon; Luminar; Marstons; Punch Taverns²; The Restaurant Group and Whitbread.

1 Regent Inns was removed from the comparator group following its delisting on 15 June 2009.

2 Punch Taverns demerged into Punch Taverns and the Spirit Group from 1 August 2011. Up to 31 July 2011 the TSR of the combined Punch Taverns has been included; the TSR of each of the new companies has been included from 1 August.

* Cash Return on Cash Capital Employed.

** Weighted Average Cost of Capital.

Other share plans

In order to underpin the Company's employee engagement strategy and to encourage employees to have a financial stake in the future of the business the Company operates two all employee HM Revenue & Customs ('HMRC') share schemes:

Sharesave: All eligible employees, including Executive Directors, can save between £5 and £250 per month over a three or five year option period. The proceeds from their savings contract may be used to acquire shares in the Company at an option exercise price fixed at the date of invitation. Performance targets do not apply to Sharesave. A grant under the Sharesave scheme was made in June 2011. Executive Directors' entitlements under the Sharesave scheme are set out on page 32.

Share Incentive Plan: All eligible employees, including Executive Directors, are invited to participate in the Share Incentive Plan. Free shares awarded under the Share Incentive Plan are typically held in trust for a period of at least three years. Performance targets do not apply to the Share Incentive Plan. A free share award under the Share Incentive Plan was made in June 2011.

Shareholding guidelines

It is Company policy that Executive Directors will normally be required to retain shares arising from share schemes until the minimum level of ownership required to satisfy the mandatory shareholding requirement, being one times base salary, has been satisfied. Directors' shareholdings are set out on page 33.

Pension (or cash allowance)

The defined benefit section of the Mitchells & Butlers Executive Pension Plan (the 'Plan') closed to future accrual on 12 March 2011. Tim Jones has participated in the defined contribution section of the Plan since his appointment on 18 October 2010. Under the Plan, Executive Directors' contributions of up to 5% of salary are matched on a four times basis by the Company.

As an alternative to the Company contribution to the Plan a member who has aggregate pension savings at or above £1.8 million, the 2011/12 Lifetime Allowance threshold, may elect to receive a cash allowance

equivalent to the net cost to the Company of the contribution which would otherwise have been made to the Plan. Until 31 May 2011 when his employment with the Group ended, Adam Fowle received such a cash allowance.

The Committee reviewed the implications of the reduction in the pension Annual Allowance ('AA') effective from the commencement of tax year 2011/12. It was decided that a member whose combined (employee and Company) contributions to the Plan would otherwise be in excess of the £50,000 AA may elect to receive a cash allowance equivalent to the net cost to the Company of any excess. There has been no adjustment to Executive Directors' remuneration to compensate for the tax changes.

Tim Jones has participated in the Company's 'NICwise' pension arrangement since his appointment. NICwise is a salary sacrifice scheme which provides Plan members with an option for their member contributions to be paid by the Company in return for an equal reduction in base pay. The scheme provides the Company with a saving equivalent to employers National Insurance contributions on the amount sacrificed. Any reference to Directors' contributions in this report includes the amount that would have been contributed but for his participation in NICwise.

The Plan provides for a normal pension age of 60 and in the event of death there is life assurance cover of up to six times salary (increased from 13 March 2011 from up to four times). The Plan also provides for full and partial incapacity benefit where the member is unable to continue in employment due to ill health. Active members of the Plan have the option to pay Additional Voluntary Contributions.

Executive Directors' contracts

Tim Jones is employed under a service contract that may be terminated at any time on one year's notice. Any payments made in lieu of notice will normally comprise base salary and contractual benefits only and be payable in equal instalments until the expiry of the notice period or, if earlier, the date on which Mr Jones secures alternative employment.

Details of the service contracts of Executive Directors who served during FY 2011 are set out below.

Executive Directors may accept one external non-executive appointment with the Company's prior approval as long as this is not likely to lead to conflict. Fees received may be retained by the Executive Director. No such non-executive appointments have applied in the year to 24 September 2011.

Doug Evans, Company Secretary & General Counsel was appointed to the Board from 26 October 2011. Mr Evans' base salary on appointment was set as £250,000 per year. Mr Evans is employed under a service contract that may be terminated at any time on 26 weeks' notice. Any payments made in lieu of notice will normally comprise base salary only and be payable in equal instalments until the expiry of the notice period or, if earlier, the date on which Mr Evans secures alternative employment.

Termination arrangements for Adam Fowle

Adam Fowle stepped down from the Board on 15 March 2011 and his employment with the Group ended on 31 May 2011. Mr Fowle, who was employed under a service contract dated 1 October 2007, was entitled to an amount equal to one year's salary, benefits and a cash allowance in lieu of contributions to the Executive Pension Plan and life assurance cover on termination as compensation in accordance with his contractual entitlements. The Company reimbursed legal fees of £10,000 incurred by Mr Fowle in connection with his termination arrangements and agreed to pay outplacement fees of £30,000.

Mr Fowle was eligible for and received a pro-rata bonus under the annual performance bonus plan for FY 2011 based on the achievement of performance conditions during the year.

Executive Directors' contracts

Director	Contract start date	Unexpired term	Notice period from Company	Minimum notice period from Director	Compensation on change of control
Tim Jones	18/10/10	Indefinite	12 months	6 months	No
Adam Fowle	01/10/07	Nil ^a	12 months	6 months	No

a. Adam Fowle resigned as a Director of the Company on 15 March 2011 and his employment with the Group ended on 31 May 2011.

Report on Directors' remuneration

continued

Mr Fowle retained his awards under the PRSP and these will vest at the normal time to the extent the performance conditions are met (but subject to pro-rating for service during the performance period). Further details of these awards are set out on page 32. The award granted to Mr Fowle under the LTIP and the options granted under the Sharesave Plan lapsed as a result of the termination of his employment. Mr Fowle forfeited the shares awarded to him under the Share Incentive Plan in 2009 and 2010 but the remainder of his shares were transferred to him as set out on page 33.

Company Chairman

John Lovering was Chairman of the Company until his resignation from the Board on 11 February 2011. Mr Lovering's annual fee was £350,000. His fee was pro-rated to 11 February 2011. No termination payment was or is payable to Mr Lovering.

Simon Burke was Chairman of the Company from 11 February 2011 until his resignation from the Board on 13 July 2011. Mr Burke's annual fee was £275,000. Mr Burke provided services to 31 July 2011 and his fee was pro-rated to that date. No termination payment was or is payable to Mr Burke.

Bob Ivell was appointed as interim Chairman on 14 July 2011; his fee was £275,000 per year. Mr Ivell's appointment as Chairman may be terminated by either party at any time without notice and without compensation. Subsequent to the reporting year end Mr Ivell was appointed as Executive Chairman. His remuneration is £600,000 per year. Mr Ivell's appointment as Executive Chairman may be terminated by either party on one month's notice. On the appointment of a Chief Executive Officer Mr Ivell's appointment as Executive Chairman will terminate immediately and he will revert to the role of Company Chairman on the terms which applied previously. Whilst Executive Chairman, if Mr Ivell, having stood for election, is not re-elected as a Director of the Company, his appointment will terminate immediately and six months' remuneration will be payable.

Deputy Chairman

Ron Robson was appointed to the Board under the Piedmont Deed of Appointment details of which are summarised on page 15. Mr Robson has served as Deputy Chairman since 14 July 2011. In this role Mr Robson's fee is £200,000 per year.

Non-Executive Directors

Non-Executive Directors do not have service contracts but serve under a letter of appointment which provides that they are initially appointed until the next AGM when they are required to stand for election. In line with requirement B.7.1 of the Code, all Directors, including Non-Executive Directors, will stand for re-election at the 2012 AGM. Non-Executive Directors' appointments are terminable without notice and with no entitlement to compensation. Payment of fees will cease immediately on termination.

Copies of the individual letters of appointment are available at the Registered Office of the Company during normal business hours and will be available to shareholders to view at the AGM.

The remuneration of the Non-Executive Directors is decided by the Board. Non-Executive Directors' fees were reviewed against market practice in January 2011. As a result of that review the base fee was increased from £40,000 per year to £50,000. Committee member and chairman fees were unchanged. It is intended that fees will, in future, be reviewed in January of each year. Non-Executive Directors do not participate in the Company's bonus arrangements, share schemes or pension plans.

The fee structure is set out below.

Michael Balfour was a Non-Executive Director of the Company until 13 July 2011 when he resigned from the Board. Mr Balfour's annual fee for FY 2011 was £102,000 which was pro-rated to 31 July 2011, being the end of the pay period in which his resignation took effect. No termination payment was or is payable to Mr Balfour.

Jeremy Blood was Non-Executive Director of the Company and served as interim Chief Executive from 15 March 2011 until he stepped down from the Board on 26 October 2011. Mr Blood was not employed under a service agreement during this period. For his period of service as interim Chief Executive Mr Blood received a fee of £297,000. On stepping down from the Board a performance related bonus of £100,000 was paid. No further payment is due to Mr Blood.

The dates of appointment of the Non-Executive Directors are set out on page 20.

TSR performance graph

As required by the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008, the Company's TSR performance for the last five financial years is shown below against a recognised share index, the FTSE 250 index.

The FTSE 250 index was chosen as the Company has been a member of the FTSE 250 throughout this time except for a short period from 21 April 2007 to 24 December 2007 when the Company was a member of the FTSE 100. The FTSE 250 index was chosen for comparison as it is the most appropriate readily available group against which the performance of the Company may be judged.

Total shareholder return from 22 September 2006 to 24 September 2011 (rebased to 100)



Non-Executive Directors' fee level and structure

Dates	Basic fee £	Committee chairman fee* £	Senior Independent Director fee £	Committee member fee* £
From January 2011 to date	50,000	8,000	5,000	6,000

* Not applicable to Nomination Committee. The Committee member fee is payable in addition to the Committee chairman fee.

Supplementary information on Directors' remuneration

The following tables and related disclosures on Directors' remuneration, STDIP, PRSP, LTIP, share options, Share Incentive Plan and pension benefits have been audited by Deloitte LLP.

Directors' remuneration

	Basic salaries and fees £000	Annual performance bonus £000	Cash allowance in lieu of contribution to the pension plan £000	Benefits £000	Payments in connection with the termination of employment £000	Total remuneration (excluding pensions)	
						2011 52 weeks £000	2010 52 weeks £000
Executive Directors							
Tim Jones ^a	352	56	18	12	–	438	–
Non-Executive Directors							
Bob Ivell ^b	66	–	–	–	–	66	–
Ron Robson	76	–	–	–	–	76	27
Douglas McMahon ^c	44	–	–	–	–	44	2
Former Directors							
Jeremy Blood ^d	323	100	–	–	–	423	34
Simon Burke ^e	158	–	–	–	–	158	99*
Michael Balfour ^f	52	–	–	–	–	52	102**
Adam Fowle ^g	386***	60	67	15	656	1,184	1,151
John Lovering ^h	13	–	–	–	–	13	350**
Sir Tim Lankester ⁱ	18	–	–	–	–	18	52
Other ^j	–	–	–	–	–	–	480
Total reporting year	1,488	216	85	27	656	2,472	–
Total prior year	1,681	480	97	39	–	–	2,297

* In FY 2010 £50,000 of the annual fee was paid in advance. £16,945 of this advance payment was receivable in relation to FY 2011 (2010 £82,534).

** The amount shown represents the entire annual fee in respect of the period to 27 January 2011 which was paid in advance. The fee receivable in relation to FY 2011 was, in respect of John Lovering, £132,366 (2010 £231,096) and in respect of Michael Balfour, £86,015 (2010 £67,348).

*** Comprises £259,664 in respect of services as a Director (to 15 March 2011) and £125,991 (including £7,538 of holiday pay in lieu of holiday accrued but untaken at the date of termination) in respect of the period from 16 March 2011 to 31 May 2011.

- Tim Jones was appointed on 18 October 2010.
- Bob Ivell was appointed on 9 May 2011 and appointed as interim Chairman of the Company on 14 July 2011.
- Douglas McMahon was appointed as a non-independent Non-Executive Director on 15 October 2010.
- Jeremy Blood served as interim Chief Executive with effect from 15 March 2011, and retired from the Board on 26 October 2011.
- Simon Burke retired from the Board on 13 July 2011.
- Michael Balfour retired from the Board on 13 July 2011.
- Adam Fowle retired from the Board on 15 March 2011. His employment with the Group ended on 31 May 2011.
- John Lovering retired from the Board on 11 February 2011.
- Sir Tim Lankester retired from the Board on 27 January 2011.
- In respect of Directors who retired from the Board during FY 2010.

'Benefits' incorporate the value of all tax assessable benefits arising from employment with the Company, which primarily relate to the provision of a company car, or car allowance, and private healthcare.

Short-Term Deferred Incentive Plan

Part of Adam Fowle's FY 2008 annual bonus was deferred into shares. The vesting of Matching Shares is subject to the performance condition described on page 27. The performance condition has not been met and the shares will lapse on 22 November 2011.

Former Director	Matching shares held at 25/09/10	Matching shares awarded during the year 25/09/10 to 24/09/11	Award date	Market price per share at award	Matching shares vesting during the year to 24/09/11	Matching shares lapsed in year	Matching shares held at 15/03/11 ^a	Lapse date	Value based on share price of 251.6p at 24/09/11 £
Adam Fowle	19,331	–	02/12/08	158.42p	–	–	19,331	22/11/11	0
Total	19,331						19,331		0

- The date on which Mr Fowle retired from the Board.

Report on Directors' remuneration

continued

Performance Restricted Share Plan

The table below shows the maximum options exercisable for nominal consideration, once the relevant performance conditions have been satisfied. Details of the performance conditions are set out on page 28.

Former Director	Maximum potential shares held at 25/09/10	Shares awarded during the year to 24/09/11	Award date	Market price per share at award (p)	Lapsed during FY 2011	Exercised during FY 2011	Market price per share at exercise (p)	Value at exercise £	Actual/ planned vesting date	Maximum potential shares held at 15/03/11 ^a	Latest lapse date	Maximum value based on share price of 251.6p at 24/09/11 £	Expected value based on share price of 251.6p at 24/09/11 £
Adam	290,844	–	23/06/08 ^b	213.00	243,873	46,971	356.34	167,376	24/11/10	–	–	–	–
Fowle	293,852	–	28/11/08	166.75	–	–	–	–	23/11/11	293,852	23/05/12	739,332	158,654
	304,326	–	30/11/09	253.00	–	–	–	–	30/11/12	304,326	30/05/13	765,684	
Total	889,022				243,873	46,971		167,376		598,178		1,505,016	

a. The date on which Mr Fowle retired from the Board.

b. The award which would normally have been made in November 2007 was deferred until June 2008.

Options which are due to vest in November 2011 and November 2012 will be pro-rated to reflect time served. In accordance with the rules of the PRSP vested options will lapse six months after the vesting date.

The potential total gross gain made in the year by all the Directors had they sold all their shares on vesting was £167,376 (2010 £71,279).

Long-Term Incentive Plan

The table below sets out details of awards made in respect of the LTIP. The performance conditions relating to the award and the basis of the calculation of the LTIP pool are set out on page 27.

Director	End of year to which performance is based for award	Maximum LTIP share awards held at 25/09/10	Awarded	Award date	Market price at award (p)	Performance condition determination date	Actual/ planned vesting date	Maximum LTIP share awards held at 24/09/11 or earlier date as stated
Tim Jones	2013	nil	a	29/11/10	345.60	29/07/13	b	a
Former Director								15/03/11
Adam Fowle	2013	c	nil	30/07/10	297.94	29/07/13	c	c

a. The participation percentage in respect of Tim Jones is 4.64% of the LTIP pool.

b. 50% of the LTIP pool vests in November 2013, 25% vests on the first anniversary of the first vesting date and the remaining 25% vests on the second anniversary of the first vesting date. Unless determined otherwise by the Committee, vesting is generally dependent on the employee being in service with the Company on the vesting date.

c. Adam Fowle's entitlement under the LTIP lapsed on 31 May 2011 when his employment with the Group ended. His participation percentage was 10% of the LTIP pool.

The base market capitalisation for the LTIP is £1,218,409,407 and the Hurdle Amount is currently £1,621,702,921. The LTIP pool is capped at £100m. Any excess over this amount is only payable subject to the discretion of the Remuneration Committee.

The number of shares receivable under the LTIP will be calculated at the performance condition determination date based on the size of the LTIP pool (i.e. 10% of the increase in market capitalisation at the end of the performance period (calculated using the average share price for the three months prior to 29 July 2013) over the Hurdle Amount) and the share price at the end of the performance period provided that the EPS condition is also met. The LTIP award may, subject to the discretion of the Remuneration Committee, be settled in cash or shares on vesting.

Directors' share options

The table below shows Directors' share options granted under the Executive Share Option Plan ('EXSOP') and Sharesave Plan.

Former Director	Date of grant	Ordinary shares under option					Option price (p)	Market share price on date of exercise	Earliest exercise date	Last expiry date
		Opening balance 25/09/10	Vested during period	Exercised during period	Lapsed during period	Closing balance at 15/03/11 ^a				
Adam Fowle	24/05/05	9,199	–	9,199	–	–	326.10	356.34	27/05/06	24/05/15
	24/05/05	110,971	–	110,971	–	–	326.10	356.34	27/05/06	24/05/15
	26/06/08	6,283	–	–	–	6,283 ^b	259.00	–	–	31/03/14
Total		126,453		120,170		6,283				

a. The date Mr Fowle retired from the Board.

b. This option was granted under the Company's Sharesave Plan and lapsed on 31 May 2011 when Mr Fowle's employment with the Group ended.

Mr Fowle exercised 120,170 options during the year; the potential total gross gain had he sold all of these shares when he exercised the options was £36,339 (2010 nil).

No options have been granted under the EXSOP since June 2005.

Share Incentive Plan

As at 24 September 2011, the Executive Directors had no entitlement under the all-employee Share Incentive Plan. At 15 March 2011, the date on which he retired from the Board, Adam Fowle held the following shares under the Share Incentive Plan.

Former Director	Shares held at 25/09/10	Shares awarded during the year 25/09/10 to 24/09/11	Award date	Market price per share at award (p)	Normal vesting date	Market price per share at normal vesting date	Shares held 15/03/11
Adam Fowle	224	–	29/06/07	876.00	29/06/10	279.40	224
	1,060	–	30/06/08	209.00	30/06/11	315.00	1,060
	1,102	–	30/06/09	250.25	30/06/12	–	1,102
	1,073	–	30/06/10	274.00	30/06/13	–	1,073
Total	3,459						3,459

In accordance with the rules of the Plan 1,284 shares awarded to Adam Fowle between 29 June 2007 and 30 June 2008 were released to him on 5 September 2011. The market value on the date of release was £2,798. The balance of 2,175 shares lapsed on 31 May 2011, the date on which his employment with the Group ended.

The potential total gross gain made in the year by Adam Fowle had he sold his shares when they vested would have been £3,339 (2010 £3,171). The market price per share at the date of grant for those shares which vested during the year was 209.00p.

Directors' Pension Benefits

Adam Fowle elected to receive a cash allowance, being £67,042 (2010 £97,250) for the period to 31 May 2011, in lieu of a Company contribution to the Plan.

The Company contributed £50,406 to the Plan in the period from 18 October 2010 to 24 September 2011 (2010 nil) in respect of Tim Jones. In addition Tim Jones received a cash allowance of £17,695.

Directors' shareholdings

Executive Director	Ordinary shares of 8 ¹³ / ₂₄ p		Non-Executive Directors		
	24/09/11	25/09/10 ^a		24/09/11	25/09/10 ^a
Tim Jones	3,500	–	Bob Ivell	–	–
			Ron Robson	–	–
			Douglas McMahan	–	–
			Jeremy Blood	–	–

a. Or date of appointment if later.

Based on the share price on 24 September 2011 of 251.6p Tim Jones' shareholding as a multiple of salary as at 24 September 2011 was 0.02 times.

The above shareholding is a beneficial interest.

None of the Directors has a beneficial interest in the shares of any subsidiary or in debenture stocks of the Company or any subsidiary.

The market price per share on 24 September 2011 was 251.6p and the range during the year to 24 September 2011 was 216.4p to 361.0p per share.

There have been no changes in the Directors' interests in shares or options granted by the Company and its subsidiaries between the end of the financial year and one month prior to the Notice of the Annual General Meeting. The Executive Directors as a group beneficially own less than 0.0009% of the Company's shares.

On behalf of the Board

Bob Ivell

Executive Chairman and Chairman of Remuneration Committee

21 November 2011

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Independent auditor's report to the members of Mitchells & Butlers plc

We have audited the Group financial statements of Mitchells & Butlers plc for the 52 weeks ended 24 September 2011 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Changes in Equity and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 Group 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 Group 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 Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 24 September 2011 and of its profit for the 52 weeks then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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.

Under the Listing Rules we are required to review:

- the Directors' Statement, set out on page 17, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Other matter

We have reported separately on the parent company financial statements of Mitchells & Butlers plc for the 52 weeks ended 24 September 2011 and on the information in the Directors' Remuneration Report that is described as having been audited.

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

Group income statement

For the 52 weeks ended 24 September 2011

	Notes	2011 52 weeks			2010 52 weeks		
		Before exceptional items and other adjustments £m	Exceptional items and other adjustments ^a £m	Total £m	Before exceptional items and other adjustments £m	Exceptional items and other adjustments ^a £m	Total £m
Revenue	2	1,796	–	1,796	1,980	–	1,980
Operating costs before depreciation, amortisation and movements in the valuation of the property portfolio	3, 8	(1,392)	(13)	(1,405)	(1,531)	–	(1,531)
Net (loss)/profit arising on property disposals	8	–	(4)	(4)	–	15	15
EBITDA^b		404	(17)	387	449	15	464
Depreciation, amortisation and movements in the valuation of the property portfolio	3, 8	(110)	(2)	(112)	(127)	(304)	(431)
Operating profit/(loss)	2	294	(19)	275	322	(289)	33
Finance costs	9	(141)	–	(141)	(153)	–	(153)
Finance revenue	9	3	–	3	–	–	–
Net finance charge from pensions	7, 8	–	(5)	(5)	–	(7)	(7)
Profit/(loss) before tax		156	(24)	132	169	(296)	(127)
Tax (expense)/credit	8, 10	(42)	35	(7)	(48)	91	43
Profit/(loss) for the period		114	11	125	121	(205)	(84)
Earnings/(loss) per ordinary share							
Basic	11	28.0p		30.7p	29.7p		(20.6)p
Diluted	11	27.7p		30.5p	29.4p		(20.6)p

a. Exceptional items and other adjustments are explained in note 1 and analysed in note 8.

b. Earnings before interest, tax, depreciation, amortisation and movements in the valuation of the property portfolio.

The notes on pages 41 to 73 form an integral part of these financial statements.

Group statement of comprehensive income

For the 52 weeks ended 24 September 2011

	Notes	2011 52 weeks £m	2010 52 weeks restated* £m
Profit/(loss) for the period		125	(84)
Other comprehensive income/(expense):			
Unrealised gain on revaluation of the property portfolio	13	73	69
Actuarial gains/(losses) on defined benefit pension schemes	7	84	(43)
Exchange differences on translation of foreign operations		–	(1)
Cash flow hedges:			
– Losses arising during the period	19	(118)	(131)
– Reclassification adjustments for losses included in profit or loss	19	37	47
Other comprehensive profit/(loss)		76	(59)
Tax (charge)/credit relating to items of other comprehensive profit/(loss)	10	(9)	37
Other comprehensive profit/(loss) after tax		67	(22)
Total comprehensive profit/(loss) for the period		192	(106)

* See restatement note 1.

The notes on pages 41 to 73 form an integral part of these financial statements.

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Group balance sheet

24 September 2011

	Notes	2011 £m	2010 restated* £m	2009 £m
ASSETS				
Goodwill and other intangible assets	12	10	1	1
Property, plant and equipment	13	3,848	3,693	4,461
Lease premiums		6	8	10
Deferred tax asset	20	83	106	87
Derivative financial instruments	19	18	11	6
Total non-current assets		3,965	3,819	4,565
Inventories	14	25	25	38
Trade and other receivables	15	70	97	40
Other cash deposits	26	50	–	–
Cash collateral deposits	26	–	–	2
Cash and cash equivalents	26	306	227	105
Total current assets		451	349	185
Assets held for sale	16	–	434	19
Total assets		4,416	4,602	4,769
LIABILITIES				
Borrowings	18	(49)	(136)	(59)
Derivative financial instruments	19	(44)	(47)	(50)
Trade and other payables	17	(298)	(334)	(270)
Current tax liabilities	10	(17)	(8)	(1)
Total current liabilities		(408)	(525)	(380)
Borrowings	18	(2,197)	(2,409)	(2,660)
Derivative financial instruments	19	(235)	(149)	(60)
Other payables	17	(12)	(12)	–
Pension liabilities	7	(37)	(143)	(130)
Deferred tax liabilities	20	(429)	(464)	(542)
Provisions	21	(6)	(6)	–
Total non-current liabilities		(2,916)	(3,183)	(3,392)
Total liabilities		(3,324)	(3,708)	(3,772)
Net assets		1,092	894	997
EQUITY				
Called up share capital	22, 24	35	35	35
Share premium account	24	21	20	17
Capital redemption reserve	24	3	3	3
Revaluation reserve	24	768	747	703
Own shares held	24	(5)	(8)	(2)
Hedging reserve	24	(214)	(149)	(87)
Translation reserve	24	12	12	13
Retained earnings	24	472	234	315
Total equity		1,092	894	997

* See restatement note 1.

The notes on pages 41 to 73 form an integral part of these financial statements.

Signed on behalf of the Board on 21 November 2011

Bob Ivell
Tim Jones

Group cash flow statement

For the 52 weeks ended 24 September 2011

	Notes	2011 52 weeks £m	2010 52 weeks £m
Cash flow from operations	25	336	457
Interest paid		(137)	(147)
Interest received		3	–
Tax paid		(20)	(8)
VAT refund received including interest	17	–	12
Net cash from operating activities		182	314
Investing activities			
Acquisition of Ha Ha Bar & Grill Limited	30	(20)	–
Acquisition of Intertain (Dining) Limited	30	(4)	–
Purchases of property, plant and equipment		(144)	(136)
Purchases of intangibles (computer software)		(4)	(2)
Proceeds from sale of property, plant and equipment		28	111
Proceeds from disposal of assets held for sale		396	19
Transfers from cash collateral deposits		–	2
Transfers to other cash deposits		(50)	–
Net cash from/(used) in investing activities		202	(6)
Financing activities			
Issue of ordinary share capital		1	3
Purchase of own shares		–	(6)
Proceeds on release of own shares		1	–
Repayment of principal in respect of securitised debt	18	(49)	(46)
Repayment of principal in respect of other borrowings		(259)	(136)
Net cash used in financing activities		(306)	(185)
Net increase in cash and cash equivalents	27	78	123
Cash and cash equivalents at the beginning of the financial period		228	105
Cash and cash equivalents at the end of the financial period^a		306	228

a. Cash and cash equivalents at the end of the financial period of £306m (2010 £228m) includes £nil (2010 £1m) of cash and cash equivalents included within assets held for sale, see note 16.

Cash and cash equivalents are defined in note 1.

The notes on pages 41 to 73 form an integral part of these financial statements.

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Group statement of changes in equity

For the 52 weeks ended 24 September 2011

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Own shares held £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
At 26 September 2009	35	17	3	703	(2)	(87)	13	315	997
Loss for the period	–	–	–	–	–	–	–	(84)	(84)
Other comprehensive income/(loss)	–	–	–	58	–	(62)	(1)	(17)	(22)
Total comprehensive income/(loss)	–	–	–	58	–	(62)	(1)	(101)	(106)
Share capital issued	–	3	–	–	–	–	–	–	3
Purchase of own shares	–	–	–	–	(6)	–	–	–	(6)
Credit in respect of share-based payments	–	–	–	–	–	–	–	4	4
Revaluation reserve realised on disposal of properties	–	–	–	(14)	–	–	–	14	–
Tax on share-based payments taken directly to equity	–	–	–	–	–	–	–	2	2
At 25 September 2010	35	20	3	747	(8)	(149)	12	234	894
Profit for the period	–	–	–	–	–	–	–	125	125
Other comprehensive income/(loss)	–	–	–	89	–	(65)	–	43	67
Total comprehensive income/(loss)	–	–	–	89	–	(65)	–	168	192
Share capital issued	–	1	–	–	–	–	–	–	1
Release of own shares	–	–	–	–	3	–	–	(2)	1
Credit in respect of share-based payments	–	–	–	–	–	–	–	6	6
Revaluation reserve realised on disposal of properties	–	–	–	(68)	–	–	–	68	–
Tax on share-based payments taken directly to equity	–	–	–	–	–	–	–	(2)	(2)
At 24 September 2011	35	21	3	768	(5)	(214)	12	472	1,092

Notes to the financial statements

For the 52 weeks ended 24 September 2011

1. General information

Mitchells & Butlers plc is a company incorporated in the United Kingdom under the Companies Act.

The consolidated financial statements are presented in pounds sterling (rounded to the nearest million), being the functional currency of the primary economic environment in which the parent and most subsidiaries operate.

Mitchells & Butlers plc, along with its subsidiaries, ('the Group') is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and in accordance with the Companies Act 2006.

The Group revalues the majority of its freehold and long leasehold properties to fair value, for accounting purposes, which it reviews at least annually. Short leasehold properties, fixtures and fittings are held at cost, less depreciation and impairment provisions, which is also considered by the Group to be a reasonable approximation to their fair value. Non-current assets held for sale are held at their carrying value in accordance with the Group's policy or their fair value less costs to sell where this is lower. The Group'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 Group's accounting policies have been applied consistently.

Basis of preparation

The Group's accounting reference date is 30 September. The Group 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.

Critical accounting judgements and estimates

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

The following are the critical judgements and estimates that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. Estimates and judgements are continually 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. The Group's critical accounting judgements and estimates are in respect of property valuations, asset impairments, assets held for sale, pensions and taxation. Details of these judgements and estimates are set out in the relevant accounting policy and detailed notes to the financial statements as set out below:

- property valuations (see accounting policy on property, plant and equipment and note 13);
- asset impairments (see accounting policy on property, plant and equipment);
- pensions (see accounting policy and note 7); and
- taxation (see accounting policy, and notes 10 and 20).

Restatements

The pension liability for the period ended 25 September 2010 included a net amount of £13m in respect of the irrecoverable element of the potential future pension surplus following the application of IFRIC 14. On 12 March 2011 the defined benefit scheme was closed to future accrual. Following the closure, the Company reconsidered the appropriate accounting for its funding obligations under IFRIC 14. The accounting at 25 September 2010 for this has been restated which has the impact of reducing the pension liability by £56m, reducing the deferred tax asset by £43m and increasing brought forward retained earnings (through an increase in other comprehensive income) by the net amount of £13m. Further details of this restatement are summarised in note 7.

Trade and other receivables and trade and other payables have been restated by £31m (2010 £32m) to reflect the collateral relating to the swap provider in the securitisation debt. There is no impact on the income statement, this has been disclosed in notes 15 and 17 respectively.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Mitchells & Butlers plc ('the Company') and entities controlled by the Company (its subsidiaries). The financial statements of the subsidiaries are prepared for the same financial reporting period as the Company. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group. Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated on consolidation.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the date of acquisition.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements, refer to note 31.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values of assets given and liabilities incurred or assumed by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 Share-based Payment; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of the date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

Notes to the financial statements

For the 52 weeks ended 24 September 2011 continued

1. General information continued

Intangible assets

i Goodwill

Goodwill arising in respect of acquisitions, being the excess of the purchase consideration over the fair value attributed to the separately identifiable assets, liabilities and contingent liabilities acquired, is stated at cost less any impairment in value. Goodwill is not amortised, but is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The impairment review requires management to undertake certain judgements, including estimating the recoverable value of the business to which the goodwill relates, based on either the fair value less costs to sell or the value in use, in order to reach a conclusion as to whether it deems the goodwill to be recoverable. Value in use estimates are based on management's projection of the cash flows that the business will generate, after applying a suitable discount rate. Fair value less costs to sell is based on management's assessment of the net proceeds which could be generated through disposing of the business to which the goodwill relates. Any impairment is recognised immediately in the income statement and is not subsequently reversed. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions prior to 30 September 1998 was eliminated against reserves. In accordance with IFRS 3 'Business Combinations', such goodwill remains eliminated against reserves and is not included in determining any subsequent profit or loss on disposal.

ii Computer software

Computer software and associated development costs, which are not an integral part of a related item of hardware, are capitalised as an intangible asset and amortised on a straight line basis over their useful life. The period of amortisation ranges between three and ten years with the majority being five years.

Property, plant and equipment

The Group revalues the majority of its freehold and long leasehold properties to fair value, for accounting purposes. Short leasehold properties, fixtures and fittings are held at deemed cost less depreciation and impairment provisions. Non-current assets held for sale are held at their carrying value in accordance with the Group's policy or their fair value less costs to sell where this is lower. The revaluation is a significant accounting judgement. Key accounting estimates are made in relation to the projected trading

levels and the property market. The Directors believe that their estimates, which are based on the current state of the UK property market, are appropriate. Surpluses which arise from the revaluation exercise are included within other comprehensive income (in the revaluation reserve) unless they are reversing a revaluation adjustment 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 income. 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 a maximum of the revaluation surplus is recognised within other comprehensive income (in the revaluation reserve).

Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of items of property, plant and equipment. Freehold land is not depreciated. Freehold and long leasehold properties 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 properties is reviewed at least annually and no depreciation is charged where the residual value is estimated to be equal to or exceed the carrying value, so that the depreciation charge would be immaterial. Leasehold properties are depreciated over the unexpired term of the lease where this is less than 50 years. The cost less residual value based on prices prevailing at the balance sheet date of plant, machinery, fixtures and fittings and equipment is spread by equal instalments over the estimated life of the relevant assets, namely:

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

Assets held under finance leases are depreciated over their expected lives on the same basis as owned assets or, where shorter, over the term of the relevant lease. The Group'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.

Expected useful lives and residual values are reviewed each year and adjusted if appropriate.

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.

The carrying values of property, plant and equipment which are not revalued to fair market value are reviewed on an outlet basis for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised whenever the carrying amount of an outlet exceeds its recoverable amount. The recoverable amount is the higher of an outlet's fair value less costs to sell and value in use. In determining the value in use of an outlet, the Group is required to make various judgements regarding the outlet's projected cash flows and the appropriate discount rate to apply to these. These judgements include estimating the future growth rate and profitability of the outlet.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but 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 years. A reversal of an impairment loss is recognised as income immediately. An impairment reversal is only recognised where there is a change in the estimates used to determine recoverable amounts, not where it results from the passage of time.

Assets held for sale and disposal groups

When the value of an asset or group of assets will be recovered through a sale transaction rather than continuing use, the assets are reclassified as assets held for sale, or as a disposal group, where the assets are to be sold as a group in a single transaction. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition. The Board of Directors must be committed to the sale and completion should be expected within one year from the date of classification. Assets held for sale and disposal groups are valued at the lower of book value and fair value less costs to sell and are no longer depreciated. Where disposing of revalued assets, these are revalued using the Company's existing policies for revaluation before classifying as held for sale. A judgement is made in relation to the fair value attributed to assets held for sale.

Leases

i Operating leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases and sub-leases are charged to the income statement on a straight line basis over the period of the lease. Lease incentives are recognised as a liability and a subsequent reduction in the rental expense over the lease term on a straight line basis.

Premiums paid on acquiring a new lease are spread on a straight line basis over the lease term. Such premiums are classified in the balance sheet as current or non-current prepayments, with the current portion being the element which relates to the following financial period.

The Group'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 Group is party to a small number of leases on properties which are no longer trading profitably. Whilst every effort is made to sublet these properties, it is not always possible. Where a lease is onerous to the Group a provision is established based on the Directors' best estimate of the payments up until the point it is judged the lease will no longer be onerous.

ii Finance leases

Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Property, plant and equipment acquired by way of finance lease are capitalised at the inception of the lease at an amount equal to the lower of their fair value and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between the finance lease obligation and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the obligation.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Work in progress is in respect of property development activities and includes the direct costs of the developments and associated professional fees.

Financial instruments

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

i Financial assets

All financial assets are recognised and 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, and 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.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

ii Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the differences between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

iii Derecognition of financial assets and liabilities

The Group 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

iv Trade and other receivables

Trade and other receivables are recognised and carried at original cost less an allowance for any uncollectable amounts.

v 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 current asset investments. For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts that are repayable on demand and that are integral to the Group's cash management.

Notes to the financial statements

For the 52 weeks ended 24 September 2011 continued

1. General information continued

vi Trade and other payables

Trade and other payables are recognised at original cost.

vii Borrowings

Borrowings, which include the Group's secured loan notes, 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.

viii Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (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) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

ix Derivative financial instruments and hedge accounting

The Group uses interest rate and currency swap contracts to hedge its exposure to changes in interest rates and exchange rates. These contracts are designated as cash flow hedges and hedge accounting is applied where the necessary criteria under IAS 39 are met. Derivative financial instruments are not used for trading or speculative purposes.

Derivative financial instruments are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates. Fair value is calculated as the present value of the estimated future cash flows.

Changes in the fair value of derivative instruments that are designated and effective as hedges of highly probable future cash flows are recognised in equity. The cumulative gain or loss is transferred from equity and recognised in the income statement at the same time as the hedged transaction affects profit or loss. The ineffective part of any gain or loss is recognised in the income statement immediately.

Movements in the fair value of derivative instruments which do not qualify for hedge accounting are recognised in the income statement immediately.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or no longer qualifies for hedge accounting. At that point, the cumulative gain or loss in equity remains in equity and is recognised in accordance with the above policy when the transaction affects profit or loss. If the hedged transaction is no longer expected to occur, the cumulative gain or loss recognised in equity is recognised in the income statement immediately.

x Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all liabilities. Equity instruments issued by the Company are recorded at the fair value of the proceeds received, net of direct issue costs.

Foreign currencies

Transactions in foreign currencies are recorded at the exchange rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the relevant rates of exchange ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities are measured at cost using the exchange rate on the date of the initial transaction.

On consolidation, the assets and liabilities of the Group's overseas operations are translated into sterling at the relevant rates of exchange ruling at the balance sheet date. The results of overseas operations are translated into sterling at average rates of exchange for the period. Exchange differences arising from the translation of the results and the retranslation of opening net assets denominated in foreign currencies are taken directly to the Group's translation reserve. When an overseas operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Revenue

Revenue is the fair value of goods and services sold to third parties as part of the Group's trading activities, after deducting sales-based taxes, coupons and staff discounts.

The majority of revenue comprises food and beverages sold in the Group's outlets. This revenue is recognised at the point of sale to the customer. Revenue arising from the sale of development property is recognised on legal completion of the sale. Revenue relating to transitional service agreements is recognised at the point which the service is provided.

Operating profit

Operating profit is stated after charging restructuring costs and movements in valuation of the property portfolio but before investment income and finance costs.

Tax

The income tax expense represents both the income tax payable, based on profits for the year, 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 is recognised on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount of their tax bases. Deferred tax is not recognised in respect of temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Assessing the outcome of uncertain tax positions requires judgements to be made in relation to the likely outcome of negotiations with and enquiries from tax authorities and in some cases e.g. recoverability of VAT on gaming machines (refer to note 17) and assessment of the likely outcome of other case law.

Employee benefits

i Pension obligations

The Group has both defined benefit and defined contribution pension arrangements.

The liability recognised in the balance sheet in respect of the Group's defined benefit arrangements is the present value of the defined benefit obligation, less the fair value of the scheme assets. The cost of providing benefits is determined using the projected unit credit method as determined annually by qualified actuaries. This is based on a number of financial assumptions and estimates, the determination of which is significant to the balance sheet valuation. These are set out and discussed in note 7 'Pensions' and include judgements in relation to long-term interest rates, inflation, investment returns and longevity of current and future pensioners.

The current service cost, together with the cost of any benefits relating to past service, is charged to operating profit. The interest cost and the expected return on assets are shown as a net amount within finance income or finance expense. Actuarial gains and losses are recognised in full in the period in which they occur, in the statement of comprehensive income, rather than the income statement. Curtailments and settlements relating to the Group's defined benefit plan are recognised in the income statement in the period in which the curtailment or settlement occurs.

For the defined contribution arrangements, the charge against profit is equal to the amount of contributions payable for that period.

ii Share-based compensation

The Group operates a number of equity-settled share-based compensation plans, whereby, subject to meeting any relevant conditions, employees are awarded shares or rights over shares. 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 employment of the Group. Fair values are calculated using a combination of Black-Scholes, Binomial and Monte Carlo simulation models depending on the conditions attached to the particular share scheme.

Own shares

The cost of own shares held in employee share trusts and in treasury are deducted from shareholders' equity until the shares are cancelled, reissued or disposed. Where such shares are subsequently sold or reissued, the fair value of any consideration received is also included in shareholders' equity.

Provisions

Provisions are recognised when the Group 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.

Dividends

Dividends proposed by the Board but unpaid at the year end are not recognised in the financial statements until they have been approved by shareholders at the Annual General Meeting. Interim dividends are recognised when paid. No dividends were proposed or paid in the current or prior period.

Adjusted profit

In addition to presenting information on an IFRS basis, the Group also presents adjusted profit and earnings per share information that excludes exceptional items and other adjustments including the related tax on these items. This adjusted information is disclosed to allow a better understanding of the underlying trading performance of the Group and is consistent with the Group's internal management reporting. Exceptional items are those which are separately identified by virtue of their size or incidence so as to allow a better understanding of the underlying trading performance of the Group, including movements in the valuation of the property portfolio. Other adjustments excluded from adjusted profit and earnings per share comprise the IAS 19 net pensions finance charge which can be volatile, as it is calculated with reference to long-term interest rates and represents a non-cash number.

Recent accounting developments

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 Group in these financial statements for the first time.

Amendment to IAS 17 'Leases' for the 'Annual improvements to IFRS 5 2009' requires the Group to reassess the classification of leases over land as previously all such leases were classified as operating leases. No changes to classification have arisen from this change.

The IASB and IFRIC have issued the following standards and interpretations which could impact the Group, with an effective date after the date of these financial statements. They have not been adopted early by the Group and are not expected to have any material impact.

IFRS 9 Financial Statements – simplifies the classification, recognition and measurement requirements for financial assets, financial liabilities and some contracts to buy or sell non-financial items. This will be effective for the Group in 2013/14, if adopted by the European Union.

IFRS 10 Consolidated Financial Statements – establishes the principles for the presentation of consolidated financial statements when an entity controls one or more other entities. This will be effective for the Group in 2013/14.

IFRS 11 Joint Arrangements – a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. This will be effective for the Group in 2013/14.

IFRS 12 Disclosure of Interests in Other Entities – sets out the requirements to disclose information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of these interests on its financial position, financial performance and cash flows. This will be effective for the Group in 2013/14.

IFRS 13 Fair Value Measurements – defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. This will be effective for the Group in 2013/14.

Exchange rates

The results of overseas operations have been translated into sterling at the weighted average euro rate of exchange for the financial period of £1 = €1.15 (2010 £1 = €1.15), where this is a reasonable approximation to the rate at the dates of the transactions. Euro and US denominated assets and liabilities have been translated at the relevant rate of exchange at the balance sheet date of £1 = €1.15 (2010 £1 = €1.17) and £1 = \$1.55 (2010 £1 = \$1.58) respectively.

Notes to the financial statements

For the 52 weeks ended 24 September 2011 continued

2. Segmental analysis

IFRS 8 Operating Segments requires operating segments to be based on the Group's internal reporting to its Chief Operating Decision Maker ('CODM'). The CODM is regarded as the Chief Executive and the other Board members. The CODM uses profit before interest and exceptional items (Operating profit pre exceptionals) as the key measure of the segment results. Group assets are reviewed as part of this process but are not presented on a segment basis.

In the strategy review statement issued on 24 March 2010 and reaffirmed in the 2010 Annual report, the Group noted that it intended to assess the performance of its retail operating units after incorporating a rental charge and to review the results and position of the retail operating and property businesses independently.

The retail operating business operates all of the Group's retail operating units and generates all of its external revenue. The property business holds the Group's freehold and long leasehold property portfolio and derives all of its income from the internal rent levied against the Group's retail operating units. The internal rent charge is eliminated at the total Group level.

	Retail Operating Business		Property Business		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Retained business						
Revenue	1,762	1,680	–	–	1,762	1,680
EBITDA pre exceptionals	208	201	190 ^c	190 ^c	398	391
Operating profit pre exceptionals	110	108	178	177	288	285
Other operations^a						
Revenue					34	300
EBITDA pre exceptionals					6	58
Operating profit pre exceptionals					6	37
Total business						
Revenue ^b					1,796	1,980
EBITDA pre exceptionals					404	449
Operating profit pre exceptionals					294	322
Exceptional items and other adjustments ^d					(19)	(289)
Operating profit					275	33
Net finance costs					(143)	(160)
Profit before tax					132	(127)
Tax (expense)/credit					(7)	43
Profit/(loss) for the financial period					125	(84)

a. Other operations include Bowl and Lodge disposals that completed in the year ended 25 September 2010 as well as the sites disposed to Stonegate in November 2010. The performance of this segment in the 52 weeks ended 24 September 2011 relates primarily to the pre-disposal trading in relation to sites disposed to Stonegate. No analysis is provided for these sites in relation to Operating/Property business as this information is not reviewed by the CODM.

b. Revenue includes other income of £6m in respect of transitional services arrangements including those in relation to the disposal of pubs to Stonegate, refer to page 14 and £13m in relation to franchise operations.

c. The EBITDA pre exceptionals of the property business relates entirely to rental income received from the retail operating business.

d. Refer to note 8.

Geographic segments

Substantially all of the Group's business is conducted in the United Kingdom. In presenting information by geographical segment, segment revenue and non-current assets are based on the geographical location of the retail operating businesses and assets.

	UK		Germany		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Revenue – sales to third parties	1,745	1,933	51	47	1,796	1,980
Segment non-current assets ^a	3,861	3,698	3	4	3,864	3,702

a. Includes balances relating to intangibles, property, plant and equipment and non-current lease premiums.

3. Operating costs

	2011 52 weeks £m	2010 52 weeks £m
Raw materials and consumables recognised as an expense	550	578
Changes in inventory of finished goods and work in progress	–	9
Employee costs and exceptional pension charge (note 5)	507	532
Hire of plant and machinery	16	27
Operating lease rentals:		
– minimum lease payments	42	52
– contingent rents	–	1
Other costs	290	332
	1,405	1,531
Depreciation of property, plant and equipment (note 13)	108	124
Amortisation of intangible assets (note 12)	2	2
Amortisation of lease premiums	–	1
Total movement in the valuation of the property portfolio (note 8)	2	304
Depreciation, amortisation and movement in the valuation of the property portfolio	112	431
	1,517	1,962

4. Auditor's remuneration

	2011 52 weeks £m	2010 52 weeks £m
Fees payable to the Company's auditor for the:		
– Audit of the Company's financial statements	0.1	0.1
– Audit of the Company's subsidiaries financial statements	0.2	0.3
Total audit fees	0.3	0.4
Other fees to auditors:		
– corporate finance services	–	0.7
– internal audit services	0.2	–
– tax services	–	–
– other services	0.1	–
Total non-audit fees	0.3	0.7

The auditor fee for the audit of the parent company was £22,000 (2010 £22,000).

All of the auditor remuneration was paid in the UK. 2010 fees were payable to Ernst & Young LLP.

The internal audit services were provided by Deloitte prior to their appointment as external auditor, refer to page 24. PricewaterhouseCoopers have provided support for internal audit services as Deloitte resigned following their appointment as external auditor.

5. Employees and Directors

	2011 52 weeks £m	2010 52 weeks £m
Costs		
Wages and salaries	448	481
Share-based payments (note 6)	6	4
Total wages and salaries	454	485
Social security costs	32	36
Pensions (note 7)	21	11
	507	532

The average number of employees including part-time employees was 40,728 (2010 44,600).

Detailed information regarding Directors' emoluments, pensions, long-term incentive scheme entitlements and their interests in share options is given in the Report on Directors' remuneration on pages 25 to 33.

6. Share-based payments

The expense recognised for share-based payments in the year is £6m (2010 £4m) which comprises share option schemes and share awards.

The Group had seven share schemes, all of which are equity-settled, in operation during the year.

The vesting of all awards or options is generally dependent upon participants remaining in the employment of a participating company during the vesting period.

Notes to the financial statements

For the 52 weeks ended 24 September 2011 continued

6. Share-based payments continued

Sharesave Plan

The Sharesave Plan is a HMRC approved savings scheme, whereby the proceeds from a savings contract, of either three or five years duration, may be used to purchase shares under option. Options are typically granted in June or July of each year, at a discount of up to 20% of the market value of the shares at the date of invitation. There are no performance conditions. The scheme is open to all UK employees provided that they have at least 12 months service at the date of invitation. The vesting period is 39 months or 63 months and options may be exercised up to six months after the vesting date.

Share Incentive Plan

The Share Incentive Plan ('SIP') is a HMRC approved savings scheme open to all UK employees with at least 12 months service at the date of invitation. The plan awards free shares to participating employees based on salary, up to a maximum award of £3,000 per employee per year. There are no performance conditions other than remaining in employment for two years from the date of award; hence there is a vesting period of two years from the award date. Shares are generally held in Trust for at least three years and are capable of being released to participants at any time thereafter.

Short-Term Deferred Incentive Plan

Under the Short-Term Deferred Incentive Plan ('STDIP') the annual bonuses of the Executive Directors and other eligible employees may be deferred into Mitchells & Butlers plc shares. From the 2009/10 bonus year onwards, at the discretion of the Remuneration Committee, at least 50% of the annual bonus for the Executive Directors and any excess over 75% of base salary earned in the year for the other eligible employees, will normally be deferred and released in equal tranches 12 and 24 months after deferral. Participants are also entitled to receive Dividend Accrued Shares on vesting equal to the value of the ordinary dividends that would have been paid on the vested shares during the performance period.

All deferrals of bonuses into shares to date have been entirely at the discretion of the Remuneration Committee.

Long-Term Incentive Plan

An award was made under the Long-Term Incentive Plan ('LTIP') on 30 July 2010 to Executive Directors and other employees who would otherwise have been eligible to participate in the PRSP.

Participants have been awarded a conditional right to receive Mitchells & Butlers plc shares with a value determined by their percentage of the LTIP pool; 69.99% of the total pool was allocated as at 24 September 2011. The size of the LTIP pool is calculated based upon achieving a three year growth in market capitalisation of the Company in excess of the 'Hurdle Amount' (market capitalisation at award date plus 10% growth per annum, adjusted downwards for any dividends paid over the three year performance period ending on 29 July 2013). The LTIP pool is capped at £100m with any excess over this amount requiring Remuneration Committee approval.

Overall vesting of awards is also dependent upon the achievement of an adjusted earnings per share underpin whereby the award is capable of vesting only if adjusted EPS growth from financial year 2010 to 2013 is at least equal to RPI plus 12 percentage points. If the EPS condition is not met no award vests.

If the above performance conditions are met the value of the LTIP pool will be converted into shares using the market value of a share at the end of the performance period. Subject to being in employment on the vesting date, participants will receive 50% of the allocation of shares once the three year performance conditions have been determined following the conclusion of the 2013 financial year end. A further 25% of the award will then be available 12 months after the initial 50% and the remaining 25% will be available 24 months after the initial 50% vests.

Participants may also receive a payment in cash or shares of an amount equal to the dividends that are payable on shares from the end of the performance period until the vesting date.

Performance Restricted Share Plan

The Performance Restricted Share Plan ('PRSP') allows Executive Directors and other eligible employees to receive nominal cost options, subject to the satisfaction of performance conditions, set by the Remuneration Committee, which are normally measured over a three year period.

Vesting for all current awards is conditional upon the achievement of a total shareholder return ('TSR') performance condition. It is also dependent upon either an adjusted earnings per share growth (November 2009 award) or a cash return on cash capital employed ('CROCCE') performance condition (all previous awards). The vesting period for these options is generally three years followed by a two year exercise period.

In respect of the TSR performance condition, Monte Carlo simulations were performed to incorporate the market condition in the measurement of the fair value. For the award made in November 2009 this is based upon an index of our competitors whereas prior awards are based on a ranked approach. For all awards, participants will be entitled to receive Dividend Accrued Shares on vesting equal to the value of the ordinary dividends that would have been paid on the vested shares during the performance period.

Due to the introduction of the LTIP, as detailed above, no awards of the PRSP are anticipated during the three year LTIP performance period.

Executive Share Option Plan

The grant of options under the Executive Share Option Plan ('EXSOP') was discontinued following shareholder approval of changes to Executive Director remuneration in 2006.

The vesting period for these options is three years from grant, followed by a seven year exercise period. The latest possible exercise date for any of these options outstanding at 24 September 2011, is 24 May 2015.

Rolled-over options

Under the terms of the separation in 2003, holders of options under the Six Continents Executive Share Option Schemes were given the opportunity to exchange their Six Continents PLC options for equivalent value new options over Mitchells & Butlers plc shares. The exchanged options are not subject to performance conditions and were immediately exercisable. The latest possible exercise date for any of the Rolled-over options outstanding at 24 September 2011, is 28 May 2012.

Further details of the above schemes, including the changes to the PRSP and the STDIP, which have been implemented this year, and details relating to the new LTIP, are included in the Report on Directors' remuneration on pages 25 to 33.

The Group has used separate option pricing models and assumptions for each plan. The following tables set out weighted average information about how the fair value of each option grant was calculated:

	Long-Term Incentive Plan	Performance Restricted Share Plan	Sharesave Plan
2011			
		Monte Carlo Simulation and Binomial	Black-Scholes
Valuation model	Monte Carlo		
Weighted average share price	333.5p ^a	–	315.0p
Exercise price	–	–	253.0p
Expected dividend yield	2.00%	–	2.00%
Risk-free interest rate	1.23%	–	1.84%
Volatility ^e	52.6%	–	47.5%
Expected life (years) ^f	3.70	–	4.04
2010			
		Monte Carlo Simulation and Binomial	Black-Scholes
Valuation model	Monte Carlo		
Weighted average share price	311.9p	252.5p	274.0p
Exercise price	–	– ^b	257.0p
Expected dividend yield	2.00% ^c	– ^d	2.00% ^c
Risk-free interest rate	1.43%	3.28%	1.85%
Volatility ^e	54.0%	54.1%	48.3%
Expected life (years) ^f	4.09	3.00	4.15

a. During the period an additional 14.49% of the pool was awarded at a weighted average share price of 333.5p. This gave a weighted average market capitalisation of £1,301m which was used in the fair value calculation. The share price for the 2010 LTIP multiplied by the number of shares in issue on award date gives the market capitalisation at date of grant of £1,275m, which has been used to calculate the Hurdle Amount. There is no exercise price associated with the LTIP.

b. The exercise price relating to the PRSP is £1 per participating employee per exercise.

c. The expected dividend yield for the Sharesave Plan and LTIP has used historical dividend information. For details on the Group's current dividend policy refer to the Financial review on page 7.

d. The expected dividend yield input for the grant of PRSP options in 2009 and 2010 is zero as participants are entitled to Dividend Accrued Shares to the value of the ordinary dividends paid during the vesting period.

e. The expected volatility is determined by calculating the historical volatility of the Company's share price commensurate with the expected term of the options and share awards.

f. The expected life of the options represents the average length of time between grant date and exercise date.

The fair value of awards under the STDIP is equal to the share price on the date of award as there is no price to be paid and employees are entitled to Dividend Accrued Shares. The assumptions set out above are therefore not relevant to this scheme.

The fair value of the SIP shares is equal to the share price on the date of grant as there is no option price to be paid and employees are entitled to dividends during the vesting period. Hence the assumptions set out above are not relevant to this scheme.

The Dividend Accrued Shares awarded during the period in respect of the PRSP and the STDIP have no incremental fair value as this has already been included within the fair value of the original award through the dividend yield assumption, as noted above.

Notes to the financial statements

For the 52 weeks ended 24 September 2011 continued

6. Share-based payments continued

Movements in the awards and options outstanding under these schemes (excluding the LTIP) for the years ended 24 September 2011 and 25 September 2010 are as follows:

	Short-Term Deferred Incentive Plan	Performance Restricted Share Plan	Share Incentive Plan
	Number of shares thousands	Number of shares thousands	Number of shares thousands
Outstanding at 26 September 2009	204	8,671	1,288
Granted	9 ^a	2,551	338
Exercised	(88)	(261)	(144)
Lapsed	(86)	(2,232)	(77)
Outstanding at 25 September 2010	39	8,729	1,405
Granted	101	–	308
Exercised	(68)	(386)	(264)
Lapsed	–	(2,899)	(61)
Outstanding at 24 September 2011	72	5,444	1,388

Fair value of options granted during the period (pence)^b

At 24 September 2011	345.6	–	315.0
At 25 September 2010	– ^a	151.6 ^c	274.0

Weighted average remaining contract life (years)

At 24 September 2011	0.6	2.5	– ^d
At 25 September 2010	1.2	3.0	– ^d

a. There was no grant under the STDIP during 2010 as the Executive Directors' bonuses were forgone. The grant shown relates to Dividend Accrued Shares awarded during the period.

b. Fair value is based on the date of grant.

c. For the PRSP (excluding Dividend Accrued Shares) the weighted average fair value is shown.

d. SIP shares are capable of remaining within the SIP trust indefinitely while participants continue to be employed by the Group.

Although shares will be delivered under the LTIP it is not possible to identify the number of shares to be awarded until the end of the performance period in November 2013, hence this scheme is not included in the table above.

	Executive Share Option Plan		Sharesave Plan		Rolled-over options	
	Number of shares thousands	Weighted average option price pence	Number of shares thousands	Weighted average option price pence	Number of shares thousands	Weighted average option price pence
Options outstanding at 26 September 2009	4,999	284.3	4,791	259.5	812	261.9
Granted	–	–	1,002	257.0	–	–
Exercised	(605)	246.8	(222)	211.9	(128)	252.3
Lapsed	(1,309)	284.2	(1,046) ^a	295.4	(158)	259.7
Options outstanding at 25 September 2010	3,085	291.8	4,525	253.0	526	264.9
Granted	–	–	975	253.0	–	–
Exercised	(304)	286.0	(259)	234.0	(109)	259.7
Lapsed	(458)	326.1	(1,081) ^a	317.8	(35)	259.7
Options outstanding at 24 September 2011	2,323	285.7	4,160	237.3	382	266.7

Options exercisable^c

At 24 September 2011	2,323	285.7	–	–	382	266.7
At 25 September 2010	3,085	291.8	–	–	526	264.9

Fair value of options granted during the period^b (pence)

At 24 September 2011	–	125.8	–
At 25 September 2010	–	75.7 ^b	–

Range of prices (pence) of options outstanding:

At 24 September 2011	219.0 – 326.1	196.0 – 711.0	266.7
At 25 September 2010	219.0 – 326.1	196.0 – 711.0	259.7 – 266.7

a. The number of lapsed shares in the period includes 338,156 (2010 428,378) cancellations.

b. Weighted average fair value based on the date of grant has been shown for the Sharesave Plan.

c. The fair value of options exercisable at 24 September 2011 for the EXSOP was nil and rolled over options nil due to the share price at the year end.

The weighted average share price during the period was 311.8p (2010 286.3p).

Summarised information about options outstanding at 24 September 2011 under the share option schemes is as follows:

Range of exercise prices (pence)	Options outstanding			Options exercisable		
	Number outstanding thousands	Weighted average remaining contract life years	Weighted average option price pence	Number outstanding thousands	Weighted average remaining contract life years	Weighted average option price pence
Performance Restricted Share Plan						
Negligible ^a	5,444	2.5	— ^a	31	0.2	— ^a
Executive Share Option Plan						
219.0	298	1.7	219.0	298	1.7	219.0
252.5	840	2.7	252.5	840	2.7	252.5
326.1	1,185	3.7	326.1	1,185	3.7	326.1
	2,323	3.0	285.7	2,323	3.0	285.7
Sharesave Plan						
401.0	50	0.5	401.0	—	—	—
711.0	37	1.5	711.0	—	—	—
259.0	688	1.1	259.0	—	—	—
196.0	1,695	2.2	196.0	—	—	—
257.0	727	3.2	257.0	—	—	—
253.0	963	4.1	253.0	—	—	—
	4,160	2.6	237.3	—	—	—
Rolled-over options						
266.7	382	0.7	266.7	382	0.7	266.7

a. The exercise price relating to the PRSP is £1 per participating employee per exercise.

7. Pensions

Background

Retirement and death benefits are provided for eligible employees in the United Kingdom principally by the Mitchells & Butlers Pension Plan (MABPP) and the Mitchells & Butlers Executive Pension Plan (MABEPP). These plans are funded, HMRC approved, occupational pension schemes with defined contribution and defined benefit sections. The defined benefit sections of the plans closed to new entrants during 2002 with new members provided with defined contribution arrangements. On 2 November 2010, Mitchells & Butlers plc concluded a process of consultation and review with the Trustees, in which it considered proposals to close the defined benefit plan to future accruals. The ceasing of future accruals for this plan became effective from 13 March 2011. At the same time Mitchells & Butlers plc implemented a revised defined contribution benefit structure. As a result of this change a curtailment charge of £13m has been included within exceptional items, see note 3. 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.

Restatement following change to IFRIC 14

As part of the closure of the defined benefit scheme on 12 March 2011, the Company has reconsidered the appropriate accounting under IFRIC 14 for the Company's funding obligations. Following this review, the Company has concluded that a restatement of the accounting at 25 September 2010 is required which has the impact of reducing the pension liability by £56m, reducing the related deferred tax asset by £43m and increasing brought forward retained earnings (through an increase in other comprehensive income) by the net amount of £13m. The tables below provide a summary of the amounts previously reported, the adjustments made and the restated amounts:

	As reported		Adjustment		Restated	
	2010 Long-term rates of return expected %	Value £m	2010 Long-term rates of return expected %	Value £m	2010 Long-term rates of return expected %	Value £m
Equities	7.4	464	—	—	7.4	464
Bonds	4.1	935	—	—	4.1	935
Property	7.4	6	—	—	7.4	6
Fair value of assets		1,405		—		1,405
Present value of scheme liabilities		(1,548)		—		(1,548)
Deficit in the schemes recognised as a liability in the balance sheet		(143)		—		(143)
Irrecoverable element of potential future pension surplus		(56)		56		—
Net liability		(199)		56		(143)
Associated deferred tax asset						
Deferred tax relating to IAS 19 valuation (note 20)		39		—		39
Deferred tax on irrecoverable element of potential future pension surplus		43		(43)		—
		82		(43)		39

Notes to the financial statements

For the 52 weeks ended 24 September 2011 continued

7. Pensions continued

The restated combined assets of the MABPP and MABEPP, their expected rates of return and the value of the pension scheme assets and liabilities at 25 September 2010 are summarised as follows:

	As reported 2010 £m	Adjusted 2010 £m	Restated 2010 £m
Group statement of comprehensive income			
Actual return less expected return on pension scheme assets	65	–	65
Changes in assumptions underlying the present value of the scheme liabilities	(108)	–	(108)
Actuarial loss recognised	(43)	–	(43)
Movement in irrecoverable element of potential future pension surplus	(13)	13	–
Total loss	(56)	13	(43)

Measurement of scheme assets and liabilities – IAS 19 and IFRIC 14

The valuations used for IAS 19 purposes are based on the results of the latest full actuarial valuation carried out at 31 March 2010 and updated by the schemes' qualified actuaries to 24 September 2011. Scheme assets are stated at market value at 24 September 2011 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. IAS 19 requires that the scheme liabilities are discounted using market yields at the end of the period on high quality corporate bonds (see 'discount rate' assumption in the table below). The IAS 19 deficit calculated on this basis is £37m, (2010 deficit £143m, 2009 deficit £130m) – as set out below.

Pension costs are assessed in accordance with the advice of independent qualified actuaries.

Principal financial assumptions

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

	2011	2010	2009	2008	2007
Wages and salaries increases	2.0% ^a	2.0% ^a	2.0% ^a	5.0% ^b	4.9% ^b
Pensions increases	3.1%	3.3%	3.3%	3.5%	3.4%
Discount rate	5.2%	5.1%	5.5%	6.5%	5.9%
Inflation rate	3.2%	3.3%	3.3%	3.5%	3.4%

a. Reflects the impact of pension changes introduced during the prior period.

b. Represents the assumption for MABPP members with equivalent assumption for MABEPP members of 6.0% in 2008 and 5.9% in 2007. This included allowance for promotional salary increases.

The discount rate applied to the pension schemes' liabilities is a significant driver of the net balance sheet valuation of the schemes and is subject to a high degree of judgement and complexity. It is estimated that a 0.1% increase or decrease in the discount rate used would, in isolation, reduce or increase the net balance sheet deficit by approximately £26m (2010 £30m), with no material impact on the income statement charge.

Mortality assumptions

The mortality assumptions were reviewed following the full actuarial valuation in March 2010 and are based on the S1NA mortality tables for the MABPP and S1NA 'light' tables for the MABEPP. An allowance was made for medium cohort projection with a 1% underpin. Ages are rated up by one year for pensioners of the MABPP and rated down by two years for all members of the MABEPP. Assumptions are consistent across both the current and previous period. A summary of the average life expectancies assumed is as follows:

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

Amounts recognised in respect of defined benefit schemes

The long-term rates of return on assets at 24 September 2011 shown in the following table form the basis of the calculation of the expected return on pension scheme assets for the 2012 financial year. The 2010 rates shown are used in calculating the 2011 expected return.

To develop the expected long-term rate of return on assets assumptions, the Group considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class is weighted based on the asset allocation, to develop the expected long-term rate of return on assets assumption for the portfolio, resulting in a weighted average assumption of 5.2% (2010 5.1%, 2009 5.5%). The actual investment return achieved on the scheme assets over the year was 5.8% (2010 11.8%, 2009 7.9%), which represented a gain of £74m (2010 gain of £135m, 2009 gain of £84m).

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

	2011		2010		2009	
	Long-term rates of return expected %	Value £m	Long-term rates of return expected %	Value ^a £m	Long-term rates of return expected %	Value £m
Equities	6.9	420	7.4	464	7.5	467
Bonds	3.8	1,046	4.1	935	4.5	800
Property	3.8	6	7.4	6	7.5	13
Fair value of assets		1,472		1,405		1,280
Present value of scheme liabilities		(1,509)		(1,548)		(1,410)
Deficit in the schemes recognised as a liability in the balance sheet		(37)		(143)		(130)
Associated deferred tax asset		9		39		36

a. Restated, further details are provided in the narrative on page 51.

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

	2011 £m	2010 restated £m	2009 £m
Group income statement			
Operating profit:			
Current service cost (defined benefit plans)	(4)	(8)	(10)
Current service cost (defined contribution plans)	(4)	(3)	(2)
Total current service cost	(8)	(11)	(12)
Exceptional pension (charge)/credit	(13)	–	44
(Charge)/credit to operating profit	(21)	(11)	32
Finance income:			
Expected return on pension scheme assets	74	69	73
Interest on pension scheme liabilities	(79)	(76)	(79)
Net finance charge in respect of pensions	(5)	(7)	(6)
Total (charge)/credit	(26)	(18)	26

	2011 £m	2010 £m	2009 £m
Group statement of comprehensive income			
Actual return less expected return on pension scheme assets	5	65	10
Changes in assumptions underlying the present value of the scheme liabilities	79	(108)	(184)
Actuarial gain/(loss) recognised	84	(43)	(174)

The movement in the fair value of the schemes' assets in the period is as follows:

	Scheme assets		
	2011 £m	2010 £m	2009 £m
Fair value of scheme assets at beginning of period	1,405	1,280	1,211
Expected return on plan assets	74	69	73
Employee contributions	1	1	1
Employer contributions	44	45	39
Benefits paid	(57)	(55)	(54)
Actuarial gain recognised	5	65	10
At end of period	1,472	1,405	1,280

Notes to the financial statements

For the 52 weeks ended 24 September 2011 continued

7. Pensions continued

Changes in the present value of defined benefit obligations are as follows:

	Defined benefit obligation		
	2011 £m	2010 £m	2009 £m
Present value of defined benefit obligation at beginning of period	(1,548)	(1,410)	(1,234)
Current service cost	(4)	(8)	(10)
Exceptional pension (charge)/credit (see note 8)	(13)	–	44
Interest cost on benefit obligations	(79)	(76)	(79)
Employee contributions	(1)	(1)	(1)
Benefits paid	57	55	54
Actuarial gain/(loss) recognised	79	(108)	(184)
At end of period ^a	(1,509)	(1,548)	(1,410)

a. The defined benefit obligation comprises £(17)m (2010 £(16)m, 2009 £(15)m) relating to the MABETUS unfunded plan and £(1,492)m (2010 £(1,532)m, 2009 £(1,395)m) relating to the funded plans.

History of experience gains and losses:	2011	2010	2009	2008	2007
Difference between the expected and actual return on scheme assets					
Amount (£m)	5	65	10	(150)	24
Percentage of scheme assets	0%	5%	1%	(12)%	2%
Experience gains/(losses) on scheme liabilities					
Amount (£m)	–	34	–	(2)	(16)
Percentage of the present value of the scheme liabilities	–	2%	–	0%	(1)%

	2011	2010 restated	2009	2008	2007
Total amount recognised in the Group statement of comprehensive income					
Amount (£m)	84	(43)	(174)	(35)	33
Percentage of the present value of the scheme liabilities	6%	(3)%	(12)%	(3)%	3%

The cumulative amount of actuarial gains and losses recognised since 26 September 2004 in the Group statement of comprehensive income is a £115m loss (2010 £199m loss, 2009 £156m loss). The Directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRS and taken directly to equity is attributable to actuarial gains and losses since inception of the schemes. Consequently, the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Group statement of comprehensive income before 26 September 2004.

Funding valuation and future funding obligations

The results of the 2010 actuarial valuation showed a funding deficit of £400m, using a more prudent basis to discount the scheme liabilities than is required by IAS 19 and on 21 July 2010 the Company formally agreed a 10 year recovery plan with the Trustees to close the funding deficit in respect of its pension scheme liabilities. The result of this was that the Group agreed to increase additional contributions from £24m to £40m per annum, commencing from 1 April 2010, subject to review at the next full actuarial valuation in 2013. The Group has therefore made additional contributions of £40m during the current financial year and, subject to this review, will make further additional contributions of £40m in each of the financial years from 2012 to 2019 and £20m in the financial year 2020.

In the 52 weeks ended 24 September 2011, the Group paid regular contributions of £4m (2010 £13m, 2009 £15m) and additional contributions of £40m (2010 £32m, 2009 £24m) in respect of the defined benefit arrangements. In addition the Group paid £6m (2010 £3m, 2009 £2m) in respect of the defined contribution arrangements.

At 24 September 2011 the MABPP owed £2m (2010 £nil) to the Group in respect of expenses paid on their behalf. This amount is included in other receivables in note 15.

8. Exceptional items and other adjustments

	Notes	2011 52 weeks £m	2010 52 weeks £m
Operating exceptional items			
Exceptional pension charge (note 7)	a	(13)	–
Profits on disposal of properties		6	26
Losses on disposal of properties		(10)	(11)
Net (loss)/profit arising on property disposals		(4)	15
Movements in the valuation of the property portfolio:			
– Reversal/(impairment) arising from the revaluation	b	8	(256)
– Other impairment	b	(10)	(23)
– Impairment arising on classification of assets held for sale	b	–	(25)
Total movements in the valuation of the property portfolio		(2)	(304)
Total operating exceptional items		(19)	(289)
Other adjustments			
Net pensions finance charge (note 7)	c	(5)	(7)
Total exceptional items and other adjustments before tax		(24)	(296)
Tax credit relating to above items		25	77
Exceptional tax (charge)/credit in respect of prior years	d	(2)	9
Tax credit in respect of change in tax legislation	e	12	5
		35	91
Total exceptional items and other adjustments after tax		11	(205)

a. Relates to a curtailment charge in respect of the closure of the defined benefit pension plans to future accruals which occurred during the period, see note 7.

b. Movements in the valuation of the property portfolio includes £8m of credit (2010 £(256)m of write down) arising from the Group's revaluation of its pub estate, £10m (2010 £23m) of other impairment of short leasehold and unlicensed properties where their carrying values exceed their recoverable amount and £nil (2010 £25m) of impairment against assets transferred to non-current assets held for sale, where the expected net sale proceeds are less than the book value.

c. The net pensions finance charge is a non-cash adjustment which is excluded from adjusted profit.

d. The current year charge is an adjustment in respect of prior year disposals. The 2010 credit represents the release of provisions relating to tax matters which have been settled principally relating to disposals.

e. A deferred tax credit has been recognised in the current year following the changes enacted in legislation on 19 July 2011, which reduced the UK standard rate of corporation tax from 27% to 25% from 1 April 2012.

9. Finance costs and revenue

	2011 52 weeks £m	2010 52 weeks £m
Finance costs		
Securitised and other debt – loans and receivables	(141)	(153)
Finance revenue		
Interest receivable – cash	3	–
Net finance charge in respect of pensions (note 7)	(5)	(7)

10. Taxation

	2011 52 weeks £m	2010 52 weeks £m	2009 52 weeks £m
Tax charged/(credited) in the income statement			
Current tax:			
– UK corporation tax	32	16	–
– Amounts overprovided in previous years	(3)	(1)	(8)
Total current tax	29	15	(8)
Deferred tax:			
– Origination and reversal of temporary differences	(13)	(45)	2
– Adjustments in respect of prior years	3	(8)	(8)
– Change in tax rate	(12)	(5)	–
Total deferred tax (note 20)	(22)	(58)	(6)
Total tax charged/(credited) in the income statement	7	(43)	(14)

Notes to the financial statements

For the 52 weeks ended 24 September 2011 continued

10. Taxation continued

	2011 52 weeks £m	2010 52 weeks £m	2009 52 weeks £m
Tax relating to items recognised in equity			
Unrealised gains/(losses) due to revaluations	1	4	(12)
Actuarial gains/(losses) on pension schemes	(25)	11	49
Cash flow hedges:			
– Losses arising during the period	30	36	25
– Reclassification adjustments for losses included in profit or loss	(15)	(14)	3
Tax (charge)/credit on items of other comprehensive (profit)/loss	(9)	37	65
Tax on share-based payments recognised directly in equity	(2)	2	1
Total tax (charge)/credit on items recognised in equity	(11)	39	66

Reconciliation of the total tax charge

The tax charge in the income statement for the year is lower (2010 credit higher) than the standard rate of corporation tax in the UK. The differences are reconciled below:

	2011 52 weeks £m	2010 52 weeks £m
Profit/(loss) before tax	132	(127)
Accounting profit/(loss) multiplied by the UK standard rate of corporation tax of 27% (2010 28%)	36	(35)
Expenses not deductible for tax purposes	3	8
Income not taxable for tax purposes	(20)	(9)
Adjustments in respect of prior years	–	(2)
Tax credit in respect of change in tax rate	(12)	(5)
Total tax charge/(credit) reported in the income statement	7	(43)

Factors which may affect future tax charges

A number of changes to the UK Corporation Tax system were announced in the March 2011 Budget Statement. The Finance Act 2011 was enacted on 19 July 2011 and reduced the main rate of corporation tax from 26% to 25% from 1 April 2012. The effect of this change has been reflected on the closing deferred tax balance shown in note 20.

Further reductions to the main rate of corporation tax are proposed to be enacted separately each year with the aim of reducing the rate by 1% per annum to 23% by 1 April 2014. In addition, the Finance Act 2011 reduced the rate of capital allowances from 1 April 2012. None of these further changes are included in these financial statements. We estimate that these further changes in total could decrease the level of cash tax payable by the Group, although the full effects have yet to be quantified. The reduction in the corporation tax rate is likely to result in a further reduction in the net deferred tax liability provided at 24 September 2011 of approximately £28m in total.

11. Earnings per share

Basic earnings per share (EPS) has been calculated by dividing the profit or loss for the financial period by the weighted average number of ordinary shares in issue during the period, excluding own shares held in treasury and by employee share trusts.

For diluted earnings per share, the weighted average number of ordinary shares is adjusted to assume conversion of all dilutive potential ordinary shares.

Adjusted earnings per ordinary share amounts are presented before exceptional items and other adjustments (see note 8) and the net pensions finance charge (see note 7) in order to allow a better understanding of the underlying trading performance of the Group.

The restatement of the 2010 pension position (note 7) did not impact the income statement result and therefore does not impact EPS.

	Profit/(loss) £m	Basic EPS pence per ordinary share	Diluted EPS pence per ordinary share
52 weeks ended 24 September 2011:			
Profit/EPs	125	30.7p	30.5p
Exceptional items and other adjustments, net of tax	(15)	(3.7)p	(3.7)p
Net pensions finance charge, net of tax	4	1.0p	0.9p
Adjusted profit/EPs	114	28.0p	27.7p
52 weeks ended 25 September 2010:			
Loss/EPs	(84)	(20.6)p	(20.6)p ^a
Exceptional items and other adjustments, net of tax	200	49.1p	48.8p
Net pensions finance charge, net of tax	5	1.2p	1.2p
Adjusted profit/EPs	121	29.7p	29.4p

a. The 2010 diluted EPS has not been presented as it is unchanged from the basic EPS as the inclusion of the dilutive potential ordinary shares would reduce the loss per share and is therefore not dilutive in accordance with IAS 33 'Earnings per Share'.

The weighted average number of ordinary shares used in the calculations above are as follows:

	2011 52 weeks m	2010 52 weeks m
For basic EPS calculations	407	407
Effect of dilutive potential ordinary shares:		
– Contingently issuable shares	2	3
– Other share options	2	1
For diluted EPS calculations	411	411

At 24 September 2011, 164,146 (2010 2,990,654) other share options were outstanding that could potentially dilute basic EPS in the future but were not included in the calculation of diluted EPS as they are anti-dilutive for the periods presented.

12. Goodwill and other intangible assets

	Goodwill £m	Computer software £m	Total £m
Cost			
At 26 September 2009	–	5	5
Additions	–	2	2
At 25 September 2010	–	7	7
Additions	7	4	11
Disposals	–	(3)	(3)
At 24 September 2011	7	8	15
Accumulated amortisation			
At 26 September 2009	–	4	4
Provided during the year	–	2	2
At 25 September 2010	–	6	6
Provided during the year	–	2	2
Disposals	–	(3)	(3)
At 24 September 2011	–	5	5
Net book value			
At 24 September 2011	7	3	10
At 25 September 2010	–	1	1
At 26 September 2009	–	1	1

There are no intangible assets with indefinite useful lives. All amortisation charges have been expensed through operating costs.

The period of amortisation for computer software ranges between three and ten years with the majority being five years.

Goodwill has been tested for impairment on a site-by-site basis using the discounted cash flows from applying the Group's cost of capital to the forecast site EBITDA. A discount rate of 7% has been used in these calculations.

For the purposes of the calculation of the recoverable amount, the cash flow projections beyond the two-year period include 2% growth per annum.

The Directors have considered the need for further disclosures in respect of goodwill and information in the financial statements however, given the value of the balance, no further disclosures have been provided.

Notes to the financial statements

For the 52 weeks ended 24 September 2011 continued

13. Property, plant and equipment

	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
Cost or valuation			
At 26 September 2009	3,867	956	4,823
Exchange differences	(1)	(2)	(3)
Additions	57	79	136
Revaluation ^a	(222)	(1)	(223)
Disposals ^b	(111)	(107)	(218)
Impairment arising on classification of non-current assets held for sale	(3)	(22)	(25)
Transferred to assets held for sale	(399)	(183)	(582)
At 25 September 2010	3,188	720	3,908
Exchange differences	–	1	1
Acquired through business combinations	9	6	15
Additions	52	92	144
Revaluation ^a	62	(1)	61
Disposals ^b	(12)	(63)	(75)
Transferred from assets held for sale	38	12	50
At 24 September 2011	3,337	767	4,104
Depreciation			
At 26 September 2009	72	290	362
Exchange differences	(1)	(2)	(3)
Provided during the year	23	101	124
Disposals ^b	(27)	(70)	(97)
Transferred to assets held for sale	(42)	(116)	(158)
Revaluation ^a	(13)	–	(13)
At 25 September 2010	12	203	215
Exchange differences	–	1	1
Provided during the year	19	89	108
Disposals ^b	(11)	(61)	(72)
Revaluation ^a	(10)	–	(10)
Transferred from non-current assets held for sale	7	7	14
At 24 September 2011	17	239	256
Net book value			
At 24 September 2011	3,320	528	3,848
At 25 September 2010	3,176	517	3,693
At 26 September 2009	3,795	666	4,461

a. The net book value increase due to revaluation of £71m (2010 £(210)m decrease) comprises a loss in relation to revaluation and impairment of short leasehold and unlicensed properties £(2)m (2010 £(279)m), see note 8, net of a revaluation reserve credit of £73m (2010 £69m) shown in the Group statement of comprehensive income.

b. Includes assets which are fully depreciated and have been removed from the fixed asset ledger.

Certain assets with a net book value of £33m (2010 £22m) owned by the Group are subject to a fixed charge in respect of liabilities held by the Mitchells & Butlers Executive Top-Up Scheme ('MABETUS').

Properties

A policy of valuing the majority of the Group's freehold and long leasehold properties, for accounting purposes, was adopted on 29 September 2007. Short leasehold properties and fixtures, fittings and equipment are held at cost less depreciation and impairment, which is also considered by the Group to be a reasonable approximation to their fair value. Non-current assets held for sale are held at their carrying value in accordance with the Group's policy or their fair value less costs to sell where this is lower. The Group accounts for long leasehold land as an operating lease.

The freehold and long leasehold properties were valued at market value, as at 24 September 2011 and 25 September 2010 by Colliers International UK plc, independent chartered surveyors and by Andrew Cox MRICS, Director of Property, Chartered Surveyor. The valuation was carried out in accordance with the provisions of RICS Appraisal and Valuation Standards ('The Red Book') assuming each asset is sold as part of the continuing enterprise in occupation individually as a fully operational trading entity. The market value has been determined having regard to factors such as current and future projected income levels, taking account of the location, the quality of the pub 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 properties. It is estimated that a £1 change in the EBITDA of the freehold and long leasehold properties would generate a circa £8 movement in their valuation.

The carrying values of property, plant and equipment which are not revalued to fair market value are reviewed on an outlet basis for impairment if events or changes in circumstances indicate that their carrying amount may not be recoverable.

Included within property, plant and equipment are assets with a net book value of £3,594m (2010 £3,497m), which are pledged as security for the securitisation debt and over which there are certain restrictions on title.

Finance leases

The net book value of fixtures, fittings and equipment includes £nil (2010 £2m) in respect of assets held under finance leases. The assets are pledged as security for the finance lease liabilities.

Net book value^a

The split of the net book value of land and buildings is as follows:

	2011 £m	2010 £m	2009 £m
Freehold	2,952	2,842	3,360
Leasehold:			
– Unexpired term of more than 50 years	260	246	298
– Unexpired term of 50 years or less	108	88	137
	3,320	3,176	3,795

a. The carrying value of freehold and long leasehold land and buildings based on their historic cost (or deemed cost at transition to IFRS), is £2,244m and £200m (2010 £2,215m and £194m respectively).

In addition to the above, premiums paid on acquiring a new lease are classified in the balance sheet as prepayments of rentals under the leases. At 24 September 2011 an amount of £6m (2010 £8m, 2009 £10m) was included in the balance sheet.

14. Inventories

	2011 £m	2010 £m	2009 £m
Work in progress ^a	4	3	12
Goods held for resale ^b	21	22	26
	25	25	38

a. Work in progress is in respect of property developments.

b. Goods held for resale are stated after the transfer of £nil (2010 £4m) into assets held for sale (see note 16).

15. Trade and other receivables

	2011 £m	2010 £m	2009 £m
Trade receivables	1	1	1
Other receivables	20	44	15
Prepayments ^a	18	20	24
Other financial assets ^b	31	32	–
	70	97	40

a. Prepayments are stated after the transfer of £nil (2010 £2m) into assets held for sale (see note 16).

b. Other financial assets relates to the swap provider and the securitised debt (see note 19).

All amounts fall due within one year.

Trade and other receivables are non-interest bearing and are classified as loans and receivables and are therefore held at amortised cost. Trade and other receivables past due and not impaired are immaterial and therefore no further analysis is presented. The Directors consider that the carrying amount of trade and other receivables approximately equates to their face value.

16. Assets held for sale

	Assets held for sale		Disposal group		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Land and buildings	–	61	–	300	–	361
Fixtures, fittings and equipment	–	9	–	57	–	66
Other	–	–	–	7	–	7
Total	–	70	–	364	–	434
Impairment arising on classification as assets held for sale	–	7	–	18	–	25

Assets held for sale comprise certain operating assets which have been approved for sale, such that the carrying amount is expected to be recovered through a sale, rather than through continuing use. Sales are expected within 12 months from the date of classification. There are no assets classified as held for sale at 24 September 2011.

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17. Trade and other payables

	2011 £m	2010 £m	2009 £m
Current			
Trade payables	89	100	96
Other taxation and social security	57	66	48
Accrued charges	66	80	73
Other payables	30	31	53
Capital payables	25	25	–
Other financial liabilities (see note 15)	31	32	–
	298	334	270
Non-current			
Other payables ^a	12	12	–

a. Non-current other payables comprise 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. HMRC lodged an appeal with the European Court of Justice (ECJ) in 2010 in respect of Rank plc's decision. The ECJ released its decision on the Rank plc case on 11 November 2011. The outcome is still uncertain as HMRC are able to refer certain items back to the UK courts if they choose to. The Group continues to hold the repayment amount of £12m (including interest and net of associated fees) as a liability until there is more certainty as to the outcome of this appeal.

Current trade and other payables are non-interest bearing.

18. Borrowings

	2011			2010		
	Current liabilities £m	Non-current liabilities £m	Total £m	Current liabilities £m	Non-current liabilities £m	Total £m
Securitised debt ^{a, b}	49	2,197	2,246	51	2,238	2,289
Other borrowings ^b	–	–	–	85	170	255
Finance leases (note 29)	–	–	–	–	1	1
Total borrowings	49	2,197	2,246	136	2,409	2,545

a. Further details of the assets pledged as security against the securitised debt are given on page 58.

b. Stated net of deferred issue costs.

	2011 £m	2010 £m	2009 £m
Analysis by year of repayment^a			
Due within one year or on demand	49	136	59
Due between one and two years	729	235	540
Due between two and five years	182	826	1,094
Due after five years	1,286	1,348	1,026
Total borrowings	2,246	2,545	2,719

a. The Group has an unconditional right to continue to hold the individual loan note tranches through to their final maturity dates (the analysis of loan notes below includes the principal repayment periods). The analysis by year of repayment in respect of the Group's A4, AB, C2 and D1 securitised loan notes is calculated on the basis that they are refinanced on the margin step-up dates, consistent with the requirements of IFRS 7.

Securitised debt

On 13 November 2003, a Group company, Mitchells & Butlers Finance plc, issued £1,900m of secured loan notes in connection with the securitisation of the majority of the Group's UK pub restaurants business owned by Mitchells & Butlers Retail Ltd. The funds raised were mainly used to repay existing bank borrowings of £1,243m, pay issue costs of £23m and return £501m to shareholders by way of a special dividend.

On 15 September 2006 Mitchells & Butlers Finance plc completed the issue of £655m of further secured loan notes in the form of the A4, AB, C2 and D1 loan notes as detailed below. These were issued under substantially the same terms as the original securitisation in November 2003. The funds raised were mainly used to return £486m to shareholders by way of a special dividend and to provide long-term funding for the Whitbread pub restaurant sites acquired. As part of the issue, the original A1 and A3 loan note tranches were repaid and reissued as A1N and A3N loan notes to take advantage of market rates.

At 24 September 2011 the loan notes consisted of 10 tranches as follows:

Tranche	Initial principal borrowed £m	Interest	Principal repayment period (all by instalments)	Effective interest rate %	Principal outstanding at 24 September 2011 £m	Expected WAL ^a
A1N	200	Floating	2011 to 2028	5.83	194	10 years
A2	550	Fixed – 5.57%	2003 to 2028	6.01	354	10 years
A3N	250	Floating	2011 to 2028	5.93	243 ^c	10 years
A4	170	Floating	2016 to 2028	5.23 ^b	170	2 years
AB	325	Floating	2020 to 2032	5.25 ^b	325	2 years
B1	350	Fixed – 5.97%	2003 to 2023	6.12	239	6 years
B2	350	Fixed – 6.01%	2015 to 2028	6.12	350	13 years
C1	200	Fixed – 6.47%	2029 to 2030	6.56	200	18 years
C2	50	Floating	2033 to 2034	5.43 ^b	50	2 years
D1	110	Floating	2034 to 2036	5.50 ^b	110	2 years
	2,555				2,235 ^c	

At 25 September 2010 the loan notes consisted of 10 tranches as follows:

Tranche	Initial principal borrowed £m	Interest	Principal repayment period (all by instalments)	Effective interest rate %	Principal outstanding at 25 September 2010 £m	Expected WAL ^a
A1N	200	Floating	2011 to 2028	5.83	200	10 years
A2	550	Fixed – 5.57%	2003 to 2028	6.01	372	10 years
A3N	250	Floating	2011 to 2028	5.93	250 ^c	10 years
A4	170	Floating	2016 to 2028	5.24 ^b	170	3 years
AB	325	Floating	2020 to 2032	5.25 ^b	325	3 years
B1	350	Fixed – 5.97%	2003 to 2023	6.12	257	7 years
B2	350	Fixed – 6.01%	2015 to 2028	6.12	350	14 years
C1	200	Fixed – 6.47%	2029 to 2030	6.56	200	19 years
C2	50	Floating	2033 to 2034	5.43 ^b	50	3 years
D1	110	Floating	2034 to 2036	5.50 ^b	110	3 years
	2,555				2,284 ^c	

a. The Group has an unconditional right to continue to hold the individual note tranches through to their final maturity dates. In accordance with IFRS 7 however, the expected remaining weighted average life ("WAL") is based on the amortisation profile of the individual note tranches. The A4, AB, C2 and D1 loan notes are currently assumed to be refinanced at their step-up dates. The margin step-up dates as at 24 September 2011 are set out below.

b. After the effect of interest rate swaps.

c. Includes the impact of £(20)m (2010 £(15)m) in respect of the currency swaps.

The notes are secured on the majority of the Group's property and future income streams therefrom. All of the floating rate notes are hedged using interest rate swaps which fix the interest rate payable.

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

Tranche	Interest	Margin	Margin step-up date	Post step-up margin
A1N*	3 month LIBOR	0.45%		
A3N*	3 month \$ LIBOR	0.45%		
A4	3 month LIBOR	0.23%	September 2013	0.58%
AB	3 month LIBOR	0.24%	September 2013	0.60%
C2	3 month LIBOR	0.75%	September 2013	1.88%
D1	3 month LIBOR	0.85%	September 2013	2.13%

* On 15 December 2010 the margin on the A1N and A3N notes stepped up from 0.18% to the current margin of 0.45%.

The overall cash interest rate payable on the loan notes is 5.8% (2010 5.8%) after taking account of interest rate hedging and the cost of the provision of a financial guarantee provided by Ambac in respect of the Class A and AB notes.

The securitisation is governed by various covenants, warranties and events of default, many of which apply to Mitchells & Butlers Retail Ltd, 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 24 September 2011, Mitchells & Butlers Retail Ltd had cash and cash equivalents of £135m (2010 £214m) which were governed by the covenants associated with the securitisation. Of this amount £44m (2010 £128m), 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.

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For the 52 weeks ended 24 September 2011 continued

18. Borrowings continued

The carrying value of the securitised debt in the Group balance sheet at 24 September 2011 is analysed as follows:

	2011 £m	2010 £m
Principal outstanding at beginning of period	2,299	2,342
Principal repaid during the period	(49)	(46)
Exchange on translation of dollar loan notes	5	3
Principal outstanding at end of period	2,255	2,299
Deferred issue costs	(12)	(13)
Accrued interest	3	3
Carrying value at end of period	2,246	2,289

At 24 September 2011 the Group had the following undrawn committed borrowing facilities:

Undrawn committed borrowing facilities ^a	2011 £m	2010 £m
Unutilised facilities expire:		
– Within one year	–	–
– Between two and five years	–	167
	–	167

a. The Group holds an undrawn £295m (2010 £295m) liquidity facility against the securitised arrangements, sized to cover 18 months debt service, which is not available for any other purpose. This is not included in the table above. This facility will expire on 3 September 2012.

Medium-term borrowing facilities

On 24 July 2008 the Group entered into a three year £600m term and revolving credit facility ('the medium-term facility') expiring on 30 November 2011, including a £300m revolving credit facility, for general business purposes which incurs interest at LIBOR plus a margin. The facility was set at £600m initially but reduced to £550m in December 2008. On 20 May 2009 the facility was amended to provide an additional £75m. At the same time, £75m of the facility originally due for payment on 31 December 2009 was prepaid. On 30 September 2009 a further £75m of the facility was prepaid and a further £50m on 2 March 2010, reducing the outstanding facility to £425m. The facility was repaid and subsequently cancelled on 15 February 2011 following the transfer of assets into the securitised estate and subsequent release of funds.

19. Financial instruments

Financial risk management

Financial risk management is the responsibility of the Group's Treasury function. The Group's Treasury function is governed by a Board 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 at least 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.

An explanation of the Group's financial instrument risk management objectives and strategies is set out below.

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

The current funding arrangements of the Group consist of the securitised notes issued by Mitchells & Butlers Finance plc (and associated liquidity facility). The terms of the securitisation contain a number of financial covenants. Compliance with these covenants is monitored by Group Treasury.

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 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.

The maturity table below details the contractual, undiscounted cash flows (both principal and interest) for the Group's financial liabilities after taking into account the effect of interest rate swaps. In accordance with IFRS 7, the analysis is calculated on the assumption that the Group's A4, AB, C2 and D1 securitised loan notes are refinanced on the margin step-up dates, however, the Group has an unconditional right to continue to hold individual loan note tranches through to their final maturity dates. Trade and other payables are excluded from the table; these are short-term and are disclosed in note 17.

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
24 September 2011							
Fixed rate:							
Securitised debt ^a	(180)	(834)	(145)	(145)	(144)	(1,904)	(3,352)
25 September 2010							
Fixed rate:							
Securitised debt ^a	(179)	(179)	(833)	(144)	(144)	(2,045)	(3,524)
Finance leases	–	(1)	–	–	–	–	(1)
Floating rate:							
Other borrowings	(52)	(214)	–	–	–	–	(266)

a. Includes the impact of the cash flow hedges.

Credit risk

The Group Treasury function enters into contracts with third parties in respect of derivative financial instruments for risk management purposes and the investment of surplus funds. These activities expose the Group to credit risk against the counterparties. To mitigate this exposure, Group Treasury operates policies that restrict the investment of surplus funds and the entering into of derivative transactions to counterparties that have a minimum credit rating of 'A' (long-term) and 'A1'/'P1' (short-term). Counterparties may also be required to post collateral with the Group, where their credit rating falls below a predetermined level. An amount of £31m (2010 £32m) of collateral was posted by a swap provider within the securitisation as at 24 September 2011. 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 Treasury Committee on a four weekly basis.

Included in other receivables are amounts due from certain Group suppliers. At the period end and included in trade and other payables are amounts due to some of these suppliers. This reduces the Groups credit exposure.

The Group's credit exposure as at 24 September 2011 was:

	2011 £m	2010 £m
Bank & cash	306	227
Other cash deposits	50	–
Trade receivables	1	1
Other receivables ^a	20	44
Derivatives ^b	18	11

a. The Group may have a right of offset against certain amounts held within this balance.

b. As disclosed in note 15 and 17, the Group has £31m (2010 £32m) of cash collateral which is not included in this balance.

Capital management

The Group's capital base is comprised of its net debt (analysed in note 26) plus total equity (disclosed on the face of the Group balance sheet). The objective is to maintain a capital base which is sufficiently strong to support the ongoing development of the business as a going concern, including the amenity and cash flow generation of the pub estate. By keeping debt (see also 'Funding and liquidity risk' above) and headroom against its debt facilities at an appropriate level, the Group ensures that it maintains a strong credit position, whilst maximising value for shareholders and adhering to its covenants and other restrictions associated with its debt (see page 61 note 18). In managing its capital structure, from time to time the Group may realise value from non-core assets, buy back or issue new shares, initiate and vary its dividend payments and seek to vary or accelerate debt repayments. The Group's policy is to ensure that the maturity of its debt profile supports its strategic objectives. The Board considers the latest covenant compliance, headroom projections and projected Balance Sheet positions at each of its meetings, based on the advice of the Treasury Committee which meets on a four weekly basis. The Treasury Committee is chaired by the Group Treasurer and monitors Treasury performance and compliance with Board-approved policies. The Group Finance Director is also a member of the Committee.

Total capital at 24 September 2011 is as follows:

	2011 £m	2010 £m	2009 £m
Net debt (see note 26)	1,870	2,302	2,600
Total equity	1,092	894	997
Total capital	2,962	3,196	3,597

Notes to the financial statements

For the 52 weeks ended 24 September 2011 continued

19. Financial instruments continued

Market risk

The Group 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.

Foreign currency risk

The Group faces currency risk in two main areas:

US\$406.87m of Class A3N floating rate notes which form part of the securitised debt (see note 18). At issuance of the notes, the Group entered into a cross currency interest rate swap to manage the foreign currency exposure resulting from both the US\$ principal and initial interest elements of the notes. Further to the step up on the A3N notes on 15 December 2010, the Group has additional foreign currency exposure as a result of the increase in US\$ interest payable. A movement of 10% in the US\$ exchange rate would have £0m (2010 £0m) impact on the reported Group profit.

The Group has no significant profit and loss exposure as a result of retranslating monetary assets and liabilities at different exchange rates. As the Group is predominantly UK based and acquires the majority of its supplies in sterling, it has no significant direct currency exposure from its operations.

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 financial statements through the adoption of the hedge accounting provisions permitted under IAS 39. The interest rate exposure resulting from the Group's £2.2bn 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.

The Group's medium-term facility incurred floating rate interest based on LIBOR. Drawings against this facility were partially hedged using interest rate swaps, with a notional principal amount of £150m (see 'Cash flow hedges – unsecured borrowings' on page 65). These swaps qualified for hedge accounting and movements in their mark-to-market values were recognised directly in equity, with the cumulative gain or loss transferred from equity and recognised in the income statement as the hedged elements of the facility were recognised against profit or loss. The swaps matured on 23 December 2010 and were not replaced. The medium-term facility was repaid and subsequently cancelled on 15 February 2011.

The Group's sensitivity to a 100 basis point movement in interest rates is detailed below:

Sensitivity to 100bps increase in interest rates (£m)	2011 £m	2010 £m
Interest income ^a	3	1
Interest expense ^b	(1)	(2)
Profit/(loss) impact	2	(1)
Derivative financial instruments (fair values) ^c	126	128
Total equity	128	127

a. Represents interest income earned on cash and cash equivalents (these are defined in note 26).

b. The element of interest expense which is not matched by payments and receipts under cash flow hedges (see below) which would otherwise offset the interest rate exposure of the Group.

c. The impact on total equity from movements in the fair value of cash flow hedges (see below).

Derivative financial instruments

Cash flow hedges

Changes in cash flow hedge fair values are recognised directly in the hedging reserve in equity to the extent that the hedges are effective. The cash flow hedges detailed below have been assessed as being highly effective during the financial period and are expected to remain highly effective over the remaining contract lives.

During the period a loss of £118m (2010 £131m loss) on cash flow hedges was recognised directly in equity. A loss of £37m (2010 £47m loss) was recycled from equity and included in the Group income statement for the period.

Cash flow hedges – securitised borrowings

At 24 September 2011, the Group held 10 (2010 10) interest rate swap contracts with a nominal value of £1,092m (2010 £1,105m), designated as a hedge of the cash flow interest rate risk of £1,092m (2010 £1,105m) of the Group's floating rate borrowings, comprising the A1N, A3N, A4, AB, C2 and D1 loan notes.

The cash flows occur quarterly, receiving a floating rate of interest based on LIBOR and paying a fixed rate of 4.8904% (2010 4.8938%). The contract maturity dates match those of the hedged item. The 10 interest rate swaps above are held on the balance sheet at fair market value, which is a liability of £(278)m (2010 £(195)m liability).

At 24 September 2011 the Group held one (2010 one) cross currency interest rate swap contract, with a nominal value of £243m (2010 £250m), designated as a hedge of the cash flow interest rate and currency risk of the Group's A3N floating rate \$406.87m borrowings. The cross currency interest rate swap is held on the balance sheet at a fair value asset of £17m (2010 £10m asset).

The cash flows occur quarterly, receiving a floating rate of interest based on US\$ LIBOR and paying a fixed rate, in sterling, of 5.4445% (2010 5.4445%).

Cash flow hedges – unsecured borrowings

Between 11 and 12 June 2009 the Group entered into short dated interest rate swaps with a notional principal of £150m and a maturity date of 23 December 2010, which swap the LIBOR based floating interest rate on its medium-term financing facility into a fixed rate of 1.9788%. The swaps, which limit the Group's exposure to short term fluctuations in the LIBOR element of drawings against the facility, meet the criteria for hedge accounting and are therefore accounted for as cash flow hedges. The cash flows on the swaps are settled quarterly. These instruments matured on 23 December 2010 and were not replaced.

The fair values of the derivative financial instruments are reflected on the balance sheet as follows. These values were measured at 24 September 2011 and may be subject to material movements in the period subsequent to the balance sheet date.

	Derivative financial instruments – Fair value				Total £m
	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	
24 September 2011					
Cash flow hedges:					
– Interest rate swaps	–	–	(43)	(235)	(278)
– Cross currency swap	18	–	(1)	–	17
Total	18	–	(44)	(235)	(261)
25 September 2010	11	–	(47)	(149)	(185)
26 September 2009	6	–	(50)	(60)	(104)

Fair values

Fair values of financial instruments are disclosed below:

	2011		2010	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Primary financial instruments ^a held or issued to finance the Group's operations:				
– Cash and cash equivalents	306	306	228	228
– Other cash deposits	50	50	–	–
– Other borrowings	–	–	(255)	(255)
– Securitised debt (excluding interest rate and currency swaps)	(2,246)	(1,999)	(2,289)	(2,090)
– Finance leases	–	–	(1)	(1)
Derivative financial instruments held to manage the interest rate and currency profile:				
Interest rate swaps:				
– liability	(278)	(278)	(195)	(195)
Currency swaps ^b	17	17	10	10
	(2,151)	(1,904)	(2,502)	(2,303)

a. Excludes working capital items such as trade receivables and payables as their carrying amount is considered to approximate to their fair value.

b. Includes the element of the fair value of currency swaps reported within net debt (see note 26).

All financial instruments are held at amortised cost, with the exception of the swaps, which are held at fair value.

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

	2011		2010	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Cash	356	356	228	228
Borrowings	(2,246)	(1,999)	(2,544)	(2,345)
Derivative financial instruments	(261)	(261)	(185)	(185)
Finance leases	–	–	(1)	(1)
Trade and other receivables	21	21	45	45
Trade and other payables	(201)	(201)	(222)	(222)
	(2,331)	(2,084)	(2,679)	(2,480)

The various tranches of the securitised debt have been valued using period end quoted offer prices. As the securitised debt is traded on an active market, the market value represents the fair value of this debt. The fair value of interest rate and currency swaps is the estimated amount which the Group could expect to pay or receive on termination of the agreements. These amounts are based on quotations from counterparties which approximate to their fair market value and take into consideration interest and exchange rates prevailing at the balance sheet date. Other financial assets and liabilities are either short-term in nature or book values approximate to fair values.

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19. Financial instruments continued

Fair value of financial instruments

The table below sets out the valuation basis of financial instruments held at fair value by the Group at 24 September 2011.

	Level 1 ^a £m	Level 2 ^b £m	Level 3 ^c £m	Total £m
24 September 2011				
Financial assets:				
Currency swaps	–	17	–	17
Financial liabilities:				
Interest rate swaps	–	(278)	–	(278)

a. Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

b. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

c. Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

During the period ended 24 September 2011 there were no transfers between levels 1, 2 or 3 fair value measurement categories.

20. Deferred tax

The deferred tax included in the Group balance sheet and Group income statement is as follows:

	2011 £m	2010 restated £m	2009 £m
Deferred tax liability:			
Accelerated capital allowances	56	75	72
Rolled over and held over gains	177	202	202
Unrealised gains on revaluations	188	179	258
Depreciated non-qualifying assets	8	8	10
Total deferred tax liability	429	464	542
Deferred tax asset:			
Retirement benefit obligations (note 7)	9	39	36
Share-based payments	5	7	5
Derivative financial instruments	69	54	32
Short-term temporary differences	–	1	3
Non-trade tax losses	–	5	11
Total deferred tax asset	83	106	87
Deferred tax in the income statement:			
Accelerated capital allowances	(18)	3	(21)
Retirement benefit obligations	5	8	19
Rolled over and held over gains	(15)	(1)	(5)
Share-based payments	–	–	1
Short-term temporary differences	1	2	2
Depreciated non-qualifying assets	(1)	–	–
Derivative financial instruments	–	–	11
Unrealised losses on revaluations	1	(76)	(28)
Non-trade tax losses	5	6	15
Total deferred tax credit in the income statement (note 10)	(22)	(58)	(6)

Unrecognised tax losses

At the balance sheet date the Group has unused losses of £12m (2010 £13m) available for offset against future profits.

A deferred tax asset has not been recognised on tax losses with a value of £3m (2010 £4m) because it is not certain that future taxable profits will be available against which the Group can utilise the benefit. These tax losses can be carried forward indefinitely.

21. Provisions

	Property Leases £m
At 26 September 2009	–
Additions	6
Utilised	–
At 25 September 2010	6
Additions	1
Utilised	(1)
At 24 September 2011	6

Onerous property provisions represent the expected unavoidable losses on onerous and vacant property leases and comprises the lower of the net rent payable or the operating loss after rental costs. The provision is calculated on a site by site basis, with an estimated period of future losses ranging from three to five years.

22. Called up share capital

	2011		2010	
	Number of shares	£m	Number of shares	£m
Authorised				
Ordinary shares of 8 ¹³ / ₂₄ p each	1,181,130,148	131	1,181,130,148	101
Allotted, called up and fully paid				
Ordinary shares of 8 ¹³ / ₂₄ p each:				
At start of the financial period	408,953,036	35	407,404,004	35
Share capital issued	514,382	–	1,549,032	–
At end of the financial period	409,467,418	35	408,953,036	35

All of the ordinary shares rank equally with respect to voting rights and rights to receive ordinary and special dividends. There are no restrictions on the rights to transfer shares.

Details of options granted since separation, under the Group's share schemes, are contained in note 6.

23. Employee share trusts

The Company has established two employee share trusts:

Share Incentive Plan ('SIP') Trust

The SIP Trust was established in 2003 to purchase shares on behalf of employees participating in the Company's SIP. Under this scheme, eligible employees are awarded free shares which are normally held in trust for a holding period of at least three years. After five years the shares may be transferred to or sold by the employee free of income tax and National Insurance contributions. The SIP Trust buys the shares in the market or subscribes for newly issued shares with funds provided by the Company. During the holding period, dividends are paid directly to the participating employees. At 24 September 2011, the trustees, Equiniti Share Plan Trustees Limited, held 1,414,689 (2010 1,423,682) shares in the Company. Of these shares, 269,162 (2010 282,835) shares are unconditionally available to employees, 305,570 (2010 141,100) shares have been conditionally awarded to employees, 813,867 (2010 980,974) shares have been awarded to employees but are still required to be held within the SIP Trust and the remaining 26,090 (2010 18,773) shares are unallocated.

Employee Benefit Trust ('EBT')

The EBT was established in 2003 in order to satisfy the exercise or vesting of existing and future share options and awards under the ESOP, PRSP, STDIP, Sharesave Plan and the Rolled-over options. The EBT purchases shares in the market or subscribes for newly issued shares, from time to time, using funds provided by the Company, based on expectations of future requirements. Dividends are waived by the EBT. At 24 September 2011, the trustees, Sanne Trust Company Limited, were holding 1,125,299 (2010 1,992,438) shares in the Company.

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24. Equity reserves

Information relates to the Group statement of changes in equity on page 40.

The Group's main operating subsidiary, Mitchells & Butlers Retail Limited, had retained earnings under UK GAAP of £200m at 24 September 2011 (2010 £76m). Its ability to distribute these reserves by way of dividends is restricted by the securitisation covenants (see note 18).

Share premium account

The share premium account represents amounts received in excess of the nominal value of shares on issue of new shares.

Capital redemption reserve

The capital redemption reserve movement arose on the repurchase and cancellation by the Company of ordinary shares during prior periods.

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.

Own shares held

Own shares held by the Group represent the shares in the Company held in treasury ('treasury shares') and by the employee share trusts.

During the financial period, there were no transactions of shares from treasury to employees and no treasury shares were acquired. The 429 shares held in treasury at 24 September 2011 had a market value of £1.1k (25 September 2010 429 shares held had a market value of £1.3k). The aggregate nominal value of the treasury shares held at 24 September 2011 was £37 (2010 £37).

During the financial period, the employee share trusts acquired nil (2010 acquired 2,032,000) and subscribed for 255,167 (2010 subscribed for 593,860) shares at a cost of £0.0m (2010 £6.3m), released 1,131,299 (2010 539,340) shares to employees on the exercise of options and other share awards for a total consideration of £1.2m (2010 £0.0m). The 2,539,988 shares held by the trusts at 24 September 2011 had a market value of £6.4m (25 September 2010 3,416,120 shares held had a market value of £10.3m). Further details regarding the employee share trusts are given in note 23.

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.

Translation reserve

The translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Goodwill

Goodwill eliminated against reserves at 24 September 2011 was £50m (2010 £50m). This arose in respect of acquisitions completed prior to 30 September 1998.

25. Cash flow from operations

	2011 52 weeks £m	2010 52 weeks £m
Operating profit	275	33
Add back: non-cash operating exceptional items	19	289
Operating profit before exceptional items	294	322
Add back:		
Depreciation of property, plant and equipment	108	124
Amortisation of intangibles (computer software)	2	2
Amortisation of lease premiums	–	1
Cost charged in respect of share-based payments	6	4
Defined benefit pension cost less regular cash contributions	(1)	(4)
Operating cash flow before exceptional items, movements in working capital and additional pension contributions	409	449
Movements in working capital and pension contributions:		
Decrease in inventories	–	9
Decrease/(increase) in trade and other receivables	3	(4)
(Decrease)/increase in trade and other payables	(36)	29
Increase in provisions	–	6
Additional pension contributions (note 7)	(40)	(32)
Cash flow from operations	336	457

26. Analysis of net debt

	2011 £m	2010 £m	2009 £m
Cash and cash equivalents (see below)	306	228	105
Cash collateral deposits (see below)	–	–	2
Other cash deposits (see below)	50	–	–
Securitised debt (note 18)	(2,246)	(2,289)	(2,331)
Other borrowings (note 18)	–	(255)	(386)
Derivatives hedging balance sheet debt ^a (note 18)	20	15	12
Finance leases (note 18)	–	(1)	(2)
	(1,870)	(2,302)	(2,600)

a. Represents the element of the fair value of currency swaps hedging the balance sheet value of the Group's US dollar denominated loan notes (see note 18). This amount is disclosed separately to remove the impact of exchange movements which are included in the securitised debt amount.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, including overnight deposits, of £259m (2010 £226m), cash deposits with an original maturity of three months or less of £47m (2010 £1m) and cash transferred to assets held for sale of £nil (2010 £1m).

Cash collateral deposits

Cash collateral deposits represent monies that were held in escrow against the MABETUS pension scheme arrangements that were repaid during the prior period.

Other cash deposits

Other cash deposits at 24 September 2011 comprise £50m (2010 nil, 2009 nil) of cash at bank with an original maturity of three months or more.

27. Movement in net debt

	2011 52 weeks £m	2010 52 weeks £m
Net increase in cash and cash equivalents	78	123
Add back cash flows in respect of other components of net debt:		
Transfers to other cash deposits	50	–
Transfers from cash collateral deposits	–	(2)
Repayment of principal in respect of securitised debt	49	46
Repayment of principal in respect of other borrowings	259	136
Decrease in net debt arising from cash flows ('Net cash flow' per note 28)	436	303
Capitalised debt issue costs net of accrued interest	(4)	(5)
Decrease in net debt	432	298
Opening net debt	(2,302)	(2,600)
Closing net debt	(1,870)	(2,302)

Notes to the financial statements

For the 52 weeks ended 24 September 2011 continued

28. Net cash flow

	2011 52 weeks £m	2010 52 weeks £m
Operating profit before exceptional items	294	322
Depreciation and amortisation	110	127
EBITDA before exceptional items^a	404	449
Working capital movement	(33)	40
Other non-cash items	5	–
Additional pension contributions (note 7)	(40)	(32)
Cash flow from operations	336	457
Net capital expenditure ^b	252	(8)
Cash flow from operations after net capital	588	449
Interest paid	(137)	(147)
Interest received	3	–
Tax paid	(20)	(8)
VAT refund received including interest	–	12
Issue of ordinary share capital	1	3
Purchase of own shares	–	(6)
Proceeds on release of own shares	1	–
Net cash flow (note 27)	436	303

a. Earnings before interest, tax, depreciation, amortisation and exceptional items.

b. Comprises purchases of property, plant and equipment, acquisitions of businesses and intangibles less proceeds from the sale of property, plant and equipment.

29. Financial commitments

Leases

The vast majority of the Group's leases are industry standard UK pub or commercial property leases which provide for periodic rent reviews to open market value and enjoy statutory rights to renewal on expiry. They generally do not contain conditions relating to rent escalation, rights to purchase, concessions, residual values or other material provisions of an unusual nature.

Operating lease commitments – Group as lessee

Total future minimum lease payments under non-cancellable operating leases are as follows:

	2011 £m	2010 £m
Due within one year	32	36
Between one and five years	123	136
After five years	451	483
	606	655

The future minimum rentals expected to be received under non-cancellable subleases as at 24 September 2011 amounted to £22m (2010 £20m).

Operating lease receivables – Group as lessor

Total future minimum lease receipts under non-cancellable operating leases are as follows:

	2011 £m	2010 £m
Due within one year	5	6
Between one and five years	12	20
After five years	14	24
	31	50

Lease income recognised in the year was as follows:

	2011 52 weeks £m	2010 52 weeks £m
Standard lease income	9	9

Finance lease commitments – Group as lessee

Total future minimum lease payments due under finance leases are as follows:

	2011 £m	2010 £m
Due within one year	–	–
Between one and five years	–	1
	–	1

Due to the timing of the expiry of the finance lease commitments, there is no material difference between the total future minimum lease payments and their present value.

Finance leases relate to various items of fixtures, fittings and equipment (see note 13).

Capital commitments

	2011 £m	2010 £m
Contracts placed for expenditure on property, plant and equipment not provided for in the financial statements	24	20

30. Acquisitions

Acquisitions in the period

The following purchases have been accounted for as acquisitions. None of the businesses acquired made a material contribution to consolidated revenue and profit in the period from their acquisition to 24 September 2011, nor would they have done in the period ended 24 September 2011 if they had been acquired on 26 September 2010.

Ha Ha Bar & Grill Limited (HHBG)

On 3 October 2010, the Group acquired all of the shares in HHBG, from Bay Restaurant Group Limited. Goodwill has arisen on the acquisition of HHBG primarily through the benefits gained from combining HHBG's sites with the Group's existing portfolio of brands and related sites.

This also supports the Group's strategy of expanding its food-led operations.

The amounts recognised in respect of identifiable assets and liabilities relating to the acquisition of HHBG were as follows:

	Recognised value £m
Property, plant and equipment	11
Deferred taxation	1
Net current assets	1
Net identifiable assets and liabilities	13
Goodwill on acquisition	7
	20
Cash consideration paid on completion	3
Repayment of debt on acquisition	17
	20

Notes to the financial statements

For the 52 weeks ended 24 September 2011 continued

30. Acquisitions continued

Intertain (Dining) Limited (IDL)

On 10 September 2011, the Group acquired all of the shares in IDL, from Intertain Limited.

At the period end none of the acquired sites had been converted into one of the Group's existing brand formats, however, a phased conversion programme will commence during the new financial period.

The amounts recognised in respect of identifiable assets and liabilities relating to the acquisition of IDL were as follows:

	Recognised value £m
Leasehold land and buildings	3
Fixtures, fittings and equipment, other assets and liabilities	1
Net identifiable assets and liabilities	4
Cash consideration paid on completion	4

31. Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Overview and Financial review on pages 1 to 11. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described within the review.

In addition, note 19 to the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

As highlighted in note 18 to the financial statements, the Group's financing is based upon securitised debt.

The Group's forecasts and projections updated following the completion of the disposal of 333 pubs to Stonegate for a consideration of £363m and, taking account of anticipated trading performance, show that the Group should be able to operate within the level of its current facilities.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and so they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

32. Contingent assets and liabilities

The Group has given indemnities in respect of the disposal of certain companies previously within the Six Continents group. It is the view of the Directors that such indemnities are not expected to result in financial loss to the Group.

33. Related party disclosures

There are no transactions with related parties requiring disclosure under IAS 24 'Related Party Disclosures' during either the current year or the previous year. Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation.

Mitchells & Butlers plc is the beneficial owner of all of the equity share capital, either itself or through subsidiary undertakings, of the following principal operating companies:

Name of subsidiary	Country of incorporation	Country of operation	Nature of business
Mitchells & Butlers Retail Ltd	England and Wales	United Kingdom	Leisure retailing
Mitchells & Butlers Retail (No 2) Ltd	England and Wales	United Kingdom	Leisure retailing
Mitchells & Butlers (Property) Ltd	England and Wales	United Kingdom	Property management
Mitchells & Butlers Leisure Retail Ltd	England and Wales	United Kingdom	Service company
Mitchells & Butlers Finance plc	England and Wales	United Kingdom	Finance company
Mitchells & Butlers Germany GmbH ^a	Germany	Germany	Leisure retailing
Standard Commercial Property Developments Ltd	England and Wales	United Kingdom	Property development

a. Shares held directly by Mitchells & Butlers plc.

A full list of subsidiary undertakings will be annexed to the next annual return of Mitchells & Butlers plc to be filed with the Registrar of Companies.

Compensation of key management personnel of the Group:

	2011 £m	2010 £m
Short-term employee benefits	3	4
Termination payments	1	–
Post-employment benefits	–	1
Share-based payments	2	1
	6	6

Only employees of Mitchells & Butlers plc who are members of the Board of Directors or the Executive Committee of Mitchells & Butlers plc are deemed to be key management personnel. It is the Board who have responsibility for planning, directing and controlling the activities of the Group.

Movements in share options held by the employees of Mitchells & Butlers plc are summarised in note 4 of the parent company accounts.

Compensation of Non-Executive Directors, which is detailed in the Report on Directors' remuneration on pages 30 to 31, includes information relating to salaries received during the current period in advance of services to be provided in the next period.

Five year review

Income statement information

	2011 52 weeks £m	2010 52 weeks £m	2009 52 weeks £m	2008 52 weeks £m	2007 52 weeks £m
Revenue	1,796	1,980	1,958	1,908	1,894
Operating profit before exceptional items	294	322	300	343	343
Operating exceptional items	(19)	(289)	(87)	(212)	(34)
Total operating profit	275	33	213	131	309
Finance revenue	3	–	–	–	–
Interest on net debt	(141)	(153)	(166)	(167)	(147)
Exceptional interest charge	–	–	(51)	(205)	(221)
Net finance (charge)/income on pensions	(5)	(7)	(6)	3	11
Profit/(loss) before taxation	132	(127)	(10)	(238)	(48)
Taxation (charge)/credit	(7)	43	14	62	38
Profit/(loss) for the financial year	125	(84)	4	(176)	(10)
Earnings/(loss) per share					
Basic	30.7p	(20.6)p	1.0p	(43.7)p	(2.5)p
Diluted	30.5p	(20.6)p	1.0p	(43.7)p	(2.5)p
Adjusted ^a	28.0p	29.7p	23.6p	31.0p	33.6p
Dividends paid and proposed^b					
Normal dividends (£m)	–	–	–	18	57
Special dividends (£m)	–	–	–	–	486
Normal dividends per share	–	–	–	4.55p	14.25p

a. Adjusted earnings per share for the years 2006 – 2008 has been restated to exclude net pensions finance income, in line with the change in disclosure of this item adopted in 2009 (see note 1 'Adjusted profit').

b. Dividend information for all years represents interim and final dividends for the year presented.

Adjusted earnings per share is stated after removing the impact of exceptional items and other adjustments as explained in note 1, less tax thereon.

Independent auditor's report to the members of Mitchells & Butlers plc

We have audited the parent company financial statements of Mitchells & Butlers plc for the 52 weeks ended 24 September 2011 which comprise the parent company balance sheet and the related notes 1 to 11. 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 parent company 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 parent company 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 parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 24 September 2011;
- 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 matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the parent company 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' remuneration report to be audited 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.

Other matter

We have reported separately on the Group financial statements of Mitchells & Butlers plc for the 52 weeks ended 24 September 2011.

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

Mitchells & Butlers plc – parent company

Balance sheet

Registered Number: 04551498

24 September 2011

	Notes	2011 £m	2010 £m
Fixed assets			
Investments	5	1,720	1,719
		1,720	1,719
Current assets			
Debtors: amounts falling due within one year	6	142	304
Debtors: amounts falling due in more than one year	6	1	1
Other cash deposits		75	1
Cash and cash equivalents		131	–
		349	306
Creditors: amounts falling due within one year	7	(1,339)	(1,340)
Net current liabilities		(990)	(1,034)
Net assets before net pension liabilities		730	685
Net pension liabilities	2	(27)	(104)
Net assets		703	581
Capital and reserves			
Called up share capital	8, 9	35	35
Share premium account	9	21	20
Capital redemption reserve	9	3	3
Profit and loss account	9	644	523
Shareholders' funds		703	581

Signed on behalf of the Board on 21 November 2011

Bob Ivell
Director

Tim Jones
Director

The accounting policies and the notes on pages 77 to 81 form an integral part of these financial statements.

Notes to the parent company financial statements

1. Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention as modified for derivative financial instruments which are held on the balance sheet at fair value. The financial statements comply with applicable accounting standards in the United Kingdom.

The Company has not presented its own profit and loss account, as permitted by section 408 of the Companies Act 2006.

No statement of recognised gains and losses is provided as the only additional loss is the actuarial movement which is disclosed in note 9.

The Company's accounting policies have been applied consistently.

Fixed asset investments

The Company's investments in Group undertakings are held at cost less provision for impairment, except for those amounts designated as being in a fair value hedge (see below).

Current taxation

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation

Deferred tax assets and liabilities are recognised, subject to certain exceptions, in respect of all material timing differences between the recognition of gains and losses in the financial statements and for tax purposes. Those timing differences recognised include accelerated capital allowances and short-term timing differences. Timing differences not recognised include those relating to the revaluation of fixed assets in the absence of a commitment to sell the assets, the gain on sale of assets rolled into replacement assets and the distribution of profits from overseas companies in the absence of any commitment by the Company to make the distribution.

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.

Employee benefits

i Pension obligations

The Company has both defined benefit and defined contribution pension arrangements.

The liability recognised in the balance sheet in respect of the Company's defined benefit arrangements is the present value of the defined benefit obligation less the fair value of the scheme assets, shown net of deferred tax. The cost of providing benefits is determined using the projected unit credit method as determined annually by qualified actuaries. The current service cost of providing pension benefits to employees, together with the cost of any benefits relating to past service, is charged to operating profit and included in staff costs. The interest cost and the expected return on assets are shown as a net amount of finance cost or income adjacent to interest. Actuarial gains and losses are recognised immediately in equity. Curtailments and settlements relating to the Company's defined benefit plan are recognised in the period in which the curtailment or settlement occurs.

For the Company's defined contribution arrangements, the charge against profit is equal to the amount of contributions payable.

ii Share-based compensation

The Company operates a number of equity-settled share-based compensation plans, whereby, subject to meeting any relevant conditions, employees are awarded shares or rights over shares. 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 generally recognised over the vesting period and is adjusted for the estimated effect, on the number of shares that will eventually vest, of non market-based vesting conditions and forfeitures due to employees leaving the employment of the Company. Fair values are calculated using a combination of Black-Scholes, Binomial and Monte Carlo simulation models depending on the conditions attached to the particular share scheme.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resource to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounts in preparation of the financial statements, refer to note 31 in the Group accounts.

Own shares

The cost of own shares held in treasury ('treasury shares') or by the Company's employee share trusts for the purpose of fulfilling obligations in respect of the Group's employee share plans are deducted from shareholders' funds in the Company balance sheet. Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from sale and the original cost taken to the profit

and loss account reserve except where the proceeds exceed the consideration paid, where the excess is transferred to the share premium account. No gain or loss is recognised on the purchase, sale, issue or cancellation of equity shares.

Dividends

Dividends proposed by the Board but unpaid at the period end are not recognised in the financial statements until they have been approved by shareholders at the Annual General Meeting. Interim dividends are recognised when paid.

Foreign currencies

Transactions in foreign currencies are recorded at the exchange rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the relevant rates of exchange ruling at the balance sheet date.

In accordance with FRS 26, the Company applies fair value accounting in order to hedge part of its euro loan with Mitchells & Butlers Germany GmbH against part of its investment in Mitchells & Butlers Germany GmbH. Foreign exchange differences arising on translation on both of these items using the period end rate are taken to the profit and loss account. The remainder of the investment in Mitchells & Butlers Germany GmbH is held at cost as described above.

Profit and loss account

The Company recorded a profit after tax of £56m (2010 profit of £93m), less dividends of £nil (2010 £nil).

Auditor's remuneration for audit services to the Company was £22,000 (2010 £22,000). This is borne by another Group company, as are any other costs relating to non-audit services (see note 4 to the Group financial statements).

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 asset impairments, pensions and taxation.

Exchange rates

The results of overseas operations have been translated into sterling at weighted average rates of exchange for the year of £1 = €1.15 (2010 £1 = €1.15) and euro denominated assets and liabilities have been translated into sterling at the rate of exchange at the balance sheet date of £1 = €1.15 (2010 £1 = €1.17).

Cash flow statement

The Company has taken advantage of the exemption under FRS1 'Cash flow statements' and not produced a cash flow statement.

Notes to the parent company financial statements

continued

2. Pensions

The net pension liability of £27m (2010 liability £(104)m), is shown net of a deferred tax asset of £10m (2010 £39m).

The Company is the sponsoring employer of the Group's pension plans. Information concerning the pension scheme arrangements operated by the Company and associated current and future contributions is contained within pages 51 to 54 to the consolidated financial statements.

Although the Company accounts for pensions under FRS 17 'Retirement Benefits', the pension amounts and disclosures included in note 7 to the consolidated financial statements in accordance with IAS 19 'Employee Benefits', are equivalent to those which are applicable under FRS 17.

3. Employees and Directors

	2011 52 weeks Number	2010 52 weeks Number
Average number of employees, including part-time employees	8	9

Employees of Mitchells & Butlers plc consist of Executive Directors and members of the Executive Committee.

4. Share-based payments

The expense recognised for share-based payments in the year is £2m (2010 £1m) which comprises share option schemes and share awards to the employees of the Company.

The Company had seven share-based payment schemes, all of which are equity-settled, in operation during the year. These are described on pages 47 to 49.

The tables on pages 50 and 51 set out awards and options granted by the Company during 2011 and 2010. The Group has used separate option pricing models and assumptions for each plan. Details of how the fair value of each option was calculated are also included on page 49.

Movements in the awards and options over the Company's shares outstanding under these schemes for the years ended 24 September 2011 and 25 September 2010 in relation to the employees of the Mitchells & Butlers Group are shown on pages 50 and 51.

Movements in the awards and options outstanding under these schemes, in respect of the employees of the Company, for the periods ended 24 September 2011 and 25 September 2010 are as follows:

	Short-Term Deferred Incentive Plan Number of shares thousands	Performance Restricted Share Plan Number of shares thousands	Share Incentive Plan Number of shares thousands
Outstanding at 26 September 2009	204	3,568	16
Transfers in from other Group companies	–	918	7
Granted	9 ^b	1,194	5
Exercised	(88)	(103)	(5)
Lapsed	(86)	(1,700)	(3)
Outstanding at 25 September 2010	39	3,877	20
Transfers in from other Group companies	–	–	–
Granted	68	–	3
Exercised	(68)	(187)	(4)
Lapsed	–	(1,526)	(4)
Outstanding at 24 September 2011	39	2,164	15
Fair value of options granted during the period (pence)^a			
At 24 September 2011	345.6	–	315.0
At 25 September 2010	– ^b	151.6 ^c	274.0
Weighted average remaining contract life (years)			
At 24 September 2011	0.2	2.6	– ^d
At 25 September 2010	1.2	3.1	– ^d

a. Fair value is based on the date of grant.

b. There was no grant under the STDIP during the period as the Executive Directors' bonuses were forgone. The grant shown relates to Dividend Accrued Shares awarded during the period.

c. For the PRSP (excluding Dividend Accrued Shares) the weighted average fair value is shown.

d. SIP shares are capable of remaining within the SIP trust indefinitely while participants continue to be employed by the Group.

	Executive Share Option Plan		Sharesave Plan		Rolled-over options	
	Number of shares thousands	Weighted average option price pence	Number of shares thousands	Weighted average option price pence	Number of shares thousands	Weighted average option price pence
Options outstanding at 26 September 2009	1,776	286.6	13	262.0	239	262.1
Transfers in from other group companies	512	277.0	21	201.0	–	–
Granted	–	–	6	257.0	–	–
Exercised	(381)	249.8	(8)	209.0	(80)	266.7
Lapsed	(880)	263.8	(7)	264.6	(159)	259.7
Options outstanding at 25 September 2010	1,027	315.1	25	226.7	–	–
Transfers in from other group companies	–	–	–	–	–	–
Granted	–	–	–	–	–	–
Exercised	(196)	297.6	–	–	–	–
Lapsed	(460)	326.1	(6)	259.0	–	–
Options outstanding at 24 September 2011	371	310.8	19	215.7	–	–
Options exercisable						
At 24 September 2011	371	310.8	–	–	–	–
At 25 September 2010	1,027	315.1	–	–	–	–
Fair value of options granted during the period (pence)^a						
At 24 September 2011	–	–	–	–	–	–
At 25 September 2010	–	–	–	71.4	–	–
Range of prices (pence) of options outstanding:						
At 24 September 2011	252.5 – 326.1	–	196.0 – 257.0	–	–	–
At 25 September 2010	252.5 – 326.1	–	196.0 – 259.0	–	–	–

a. Fair value is based on date of grant.

The weighted average share price during the period was 311.8p (2010 286.3p).

Summarised information about options over the Company's shares outstanding at 24 September 2011 under the share option schemes, in respect of the employees of the Mitchells & Butlers Group, is shown on page 51.

Summarised information about options outstanding, in respect of the employees of the Company, at 24 September 2011 under the share option schemes is as follows:

	Options outstanding			Options exercisable		
	Number outstanding thousands	Weighted average remaining contract life years	Weighted average option price pence	Number outstanding thousands	Weighted average remaining contract life years	Weighted average option price pence
Range of exercise prices (pence)						
Performance Restricted Share Plan						
Negligible ^a	2,164	2.6	– ^a	30	0.9	– ^a
Executive Share Option Plan						
252.5	77	2.7	252.5	77	2.7	252.5
326.1	294	3.7	326.1	294	3.7	326.1
	371	3.4	310.8	371	3.4	310.8
Sharesave Plan						
196.0	13	2.5	196.0	–	–	–
257.0	6	4.3	257.0	–	–	–
	19	3.1	215.7	–	–	–

a. The exercise price relating to the PRSP is £1 per participating employee per exercise.

Notes to the parent company financial statements

continued

5. Fixed asset investments

	Shares in Group undertakings £m
Cost	
At 25 September 2010	2,179
Exchange differences	1
Disposals	(430)
At 24 September 2011	1,750
Provision	
At 25 September 2010	460
Provided during year	–
Disposals	(430)
At 24 September 2011	30
Net book value	
At 24 September 2011	1,720
At 25 September 2010	1,719

Mitchells & Butlers plc is the beneficial owner of all of the equity share capital, either itself or through subsidiary undertakings, of the following principal operating companies:

Name of subsidiary	Country of incorporation	Country of operation	Nature of business
Mitchells & Butlers Retail Ltd	England and Wales	United Kingdom	Leisure retailing
Mitchells & Butlers Retail (No 2) Ltd	England and Wales	United Kingdom	Leisure retailing
Mitchells & Butlers (Property) Ltd	England and Wales	United Kingdom	Property management
Mitchells & Butlers Leisure Retail Ltd	England and Wales	United Kingdom	Service company
Mitchells & Butlers Finance plc	England and Wales	United Kingdom	Finance company
Mitchells & Butlers Germany GmbH ^a	Germany	Germany	Leisure retailing
Standard Commercial Property Developments Ltd	England and Wales	United Kingdom	Property development

a. Shares held directly by Mitchells & Butlers plc.

A full list of subsidiary undertakings will be annexed to the next annual return of Mitchells & Butlers plc to be filed with the Registrar of Companies.

6. Debtors

	2011 £m	2010 £m
Amounts owed by group undertakings	142	296
Group relief receivable	–	8
Deferred tax asset	1	1
	143	305

All amounts fall due within one year, except for the deferred tax asset which falls due after more than one year.

7. Creditors: amounts falling due within one year

	2011 £m	2010 £m
Bank overdraft	26	26
Amounts owed to Group undertakings	1,311	1,311
Other creditors	2	3
	1,339	1,340

8. Called up share capital

Details of the amount and nominal value of authorised, allotted, called up and fully paid share capital are contained in note 22 page 67.

9. Capital and reserves

	Share capital £m	Share premium £m	Capital redemption reserve £m	Profit and loss account reserve		
				Own shares £m	Other £m	Total £m
At 25 September 2010	35	20	3	(8)	531	523
Share capital issued	–	1	–	–	–	–
Purchase of own shares	–	–	–	3	–	3
Credit in respect of employee share schemes	–	–	–	–	6	6
Actuarial gain on pension schemes	–	–	–	–	56	56
Profit after taxation	–	–	–	–	56	56
At 24 September 2011	35	21	3	(5)	649	644

The profit and loss account reserve is wholly distributable after the deduction for own shares.

Own shares

Own shares held by the Company represent the shares in the Company held in treasury ('treasury shares') and by the employee share trusts.

Details of own shares held by the Group are contained in note 24 page 68 to the consolidated financial statements.

10. Deferred tax asset

	£m
At 25 September 2010	40
Charged to profit and loss account	(5)
Charged to profit and loss account reserves	(24)
At 24 September 2011	11

Analysed as tax on timing differences related to:

	2011 £m	2010 £m
Share-based payments	1	1
Pensions	10	39
Deferred tax asset	11	40

The deferred tax asset in respect of pensions is netted off the pension liability in note 2.

Further information on the changes to tax legislation are provided in note 10 on pages 55 and 56 to the consolidated financial statements.

11. Related party transactions

The Company has taken advantage of the exemption under FRS8 and not disclosed details of transactions with wholly owned subsidiaries.

Brands people recognise



Since Nicholson's first opened its doors in 1873, this collection of pubs has offered warm and inviting hospitality, quality food and the very best in real ales, all in a typically British pub atmosphere.



Shareholder information

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Registrar

Equiniti

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Spencer Road
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From the UK:

Telephone 0871 384 2065*
Fax 0871 384 2100*

From non-UK jurisdictions:

Telephone +44 (0)121 415 7088
Fax +44 (0)1903 698 403

For those with hearing loss, a textphone is available on 0871 384 2255* for UK callers with compatible equipment.

* Calls to these numbers are charged at 8p per minute from a BT landline. Other telephone provider costs may vary. Lines are open 8.30am to 5.30pm, Monday to Friday (excluding Bank Holidays).

Key dates

These dates are indicative only and may be subject to change

2011 final results announcement	22 November 2011
Annual General Meeting	26 January 2012
Interim management statement	January 2012
Announcement of half-year results	May 2012
Interim management statement	July 2012
Pre-close trading update	September 2012
2012 final results announcement	November 2012

Glossary

Amenity

Design, décor, furniture and facilities that contribute to the environment and atmosphere of a site.

AWT (Average Weekly Take)

The average sales per site per week, calculated as total sales divided by the average number of sites trading during the period divided by the number of weeks in the period.

Cash flow from operations

Net cash flow resulting directly from regular operations.

EBIT

Earnings before interest and tax.

EBITDA

Earnings before interest, tax, depreciation and amortisation.

EBITDAR

Earnings before interest, tax, depreciation, amortisation and rent.

Internal Rent

A notional rent charge made against freehold properties to align internal performance measurement across freehold and leasehold sites.

National Minimum Wage

The minimum amount an employer must pay its employees as defined by law.

Off-trade

Any retail outlet which has a licence to sell alcohol for consumption off the premises.

ONS

Office for National Statistics.

On-trade

Any retail outlet which has a licence to sell alcohol for consumption on the premises (e.g. pubs, restaurants, nightclubs, clubs).

Operating profit

Earnings before interest and tax.

Other operations

Other operations include bowl and lodge disposals that completed in FY 2010 as well as the sites disposed to Stonegate in November 2010 and SCPD.

Outlet employment ratio

Outlet employment costs divided by sales, expressed as a percentage.

Red Book valuation

A valuation conducted in compliance with the valuation standards of the Royal Institution of Chartered Surveyors.

Retained estate

The Retained estate comprises the ongoing business and is stated before exceptional items and other adjustments. It excludes the major disposals of 333 non-core pubs, lodges and Hollywood Bowl, and in addition SCPD.

Returns on expansionary capital

Incremental return is the growth in annual site EBITDA expressed as a percentage of the associated capital investment for sites having received expansionary investment over the last two financial years. For sites which have not been trading for a full 12 months, incremental return is estimated based on an annualisation of actual post-investment trading. Expansionary capital is capital invested to increase the trading area of a site or to materially change the customer offer. Expansionary capital represents investment over and above the maintenance investment cycle for a site.

Same outlet like-for-like sales growth

The sales this year compared to the sales in the previous year of all UK managed sites that were trading in the two periods being compared, expressed as a percentage.

SCPD

Standard Commercial Property Developments Limited, a property company holding a small residual land bank.

Securitisation

A means of raising finance secured on a particular group of assets and the associated cash flows derived from those assets.



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Mitchells & Butlers online

Mitchells & Butlers' comprehensive website gives you fast, direct access to a wide range of Company information.

- Downloadable Annual report and accounts
- Latest investor news and press releases
- Brand news and offers
- Responsibility policies and review
- Find a local pub and restaurant
- Sign up for latest news

To find out more go to www.mbplc.com



Our brands

All of our popular brands have their own websites, helping our customers to find the information they need straightaway. Latest food and drink menus, news and offers, email newsletters and details of new openings are all available.

Sizzling Pubs
www.sizzlingpubs.co.uk

Vintage Inns
www.vintageinn.co.uk

Harvester
www.harvester.co.uk

Ember
www.emberinns.co.uk
www.emberpubanddining.co.uk

Toby Carvery
www.tobycarvery.co.uk

Crown Carveries
www.crowncarveries.co.uk

Metro Professionals
www.mbplc.com/findapub

Nicholson's
www.nicholsonspubs.co.uk

Premium Country Dining Group
www.mbplc.com/findapub

O'Neill's
www.oneills.co.uk

Alex
www.alexgastro.de

All Bar One
www.allbarone.co.uk

Village Pub & Kitchen
www.villagepubandkitchen.co.uk

Miller & Carter
www.millerandcarter.co.uk

Browns
www.browns-restaurants.co.uk

Innkeeper's Lodge
www.innkeeperslodge.co.uk

