Imelda Walsh **Chair of the Remuneration Committee**

Dear fellow shareholder

I am pleased to present the Directors' remuneration report in respect of the financial year, which ended on 29 September 2018.

Background and business context

For the second year in a row, like-for-like sales[a] have been ahead of the market with growth of 1.3%, which would have been stronger but for the impact of several bouts of snow over the winter, the prolonged hot weather this summer and England's extended run in the football World Cup. The wide range of brands and offers that make up the Mitchells & Butlers portfolio means that when there are unusual or unexpected events, these can impact both positively and negatively. For example, the summer heatwave and World Cup were great for our more drinks-led pubs but not so good for our carvery businesses (Toby Carvery and Stonehouse).

Our strategic priorities remain unchanged; to build a balanced business, instil a more commercial culture and drive an innovation agenda. Around 240 capital investment projects were completed during the year and once again the main focus of the conversion programme was Miller & Carter, which now has over 100 sites and is consistently delivering strong returns. The remodel programme demonstrates how our brands can continue to evolve and innovate, in a very competitive consumer environment.

Our commercial culture has had a positive impact on mitigating many of the cost headwinds we face. Consumer expectations, everywhere, continue to increase and guests are more willing to provide feedback on their experiences. Immediate access to social media feedback through Reputation.com allows our managers to see all online reviews for their business on one platform and to interact directly with guests.

In a fast-moving consumer environment, innovation is something that guests expect, and technology plays a fundamental role by enabling us to identify opportunities to improve. All of our brands offer a facility to pay via an app and the ability to order food and drink at the table is now on trial in a number of businesses, with encouraging feedback from guests.

Last year, I explained that Phil Urban, our CEO was developing a programme, Ignite 2, to further improve sales and increase efficiencies and during 2018 the individual plans which make up the Ignite programme were developed, resulting in a number of workstreams. Examples of these include improved sales forecasting, which will support a more efficient scheduling of employees, the removal of cash expenditure from the business enabling costs to be better controlled and purchasing power maximised and, the introduction of software that can identify potentially fraudulent activity. In addition, our booking platform and processes have been streamlined to reduce the number of steps needed to complete a booking and to allow the suggestion of an alternative Mitchells & Butlers venue when the guest's first choice is not available.

People are essential to our success and consistently great guest experiences rely on a team of highly engaged people. Engagement scores have again improved during 2018 reaching their highest ever level for the retail team. We have proven strong links between high levels of engagement, guest satisfaction and, in turn, sales performance and it was also encouraging that the turnover of retail management employees fell during the year. However, retail team member turnover increased by 2ppts and this has been predominantly seen in businesses in the South East and London where there is a higher proportion of employees from the European Union. The end of freedom of movement, when the UK leaves the European Union, is likely to have an adverse impact on all hospitality businesses resulting in a shortage of talent, particularly in kitchen roles. For this reason, our apprenticeship programme is now more important than ever and there are now c.1,800 team members taking part across a range of roles.

Adjusted operating profit[a] of £303m was 1.6% lower than last year on a 52 week basis. Profitability in the first half was negatively impacted by snow in particular, resulting in a decline of £8m against last year. However, in the second half, adjusted operating profit[a] grew by £3m, despite Easter shifting into the first half, as the momentum from our strategic initiatives continued to gather pace and the summer heatwave having a mixed impact across our portfolio of businesses. Trading in the new financial year has also started strongly with like-for-like[a] sales growth of 2.2%.

2018 remuneration

Annual bonus

For 2018 the annual bonus plan had four elements: Adjusted Operating Profit (hereafter referred to as Operating Profit[a]), Guest Health, Employee Engagement and Food Safety. The plan measures reflect the overall business scorecard aligning all employees from Executive Directors through to Retail Management employees.

Operating Profit

In determining the Operating Profit target range, the Committee took into consideration a range of factors including the general and sector outlook, the continuing significant cost headwinds of c.£60m per annum and the benefits likely to be realised over the financial year from the Ignite programme. The target was set broadly in line with the 2017 outturn (£308m on a 52 week basis) and market consensus. The level of performance required for a maximum award required a significant level of performance ahead of the both the Company's business plan and market expectations.

The Committee also took the decision to increase the threshold level of Operating Profit required to trigger the non-financial elements from 95% of target to 97.5% of target.

The Group delivered an Operating Profit of £303m, which was 99% of the performance required for an on-target award, resulting in a payout of 28% of salary (out of 70%) for Executive Directors. The Committee reflected on whether this represented a good performance for the year and also versus the prior year and concluded that it did, given the unprecedented cost challenges and our continuing outperformance versus competitors[1].

Non-financial measures – 30% (out of 100%)

Guest Health (0% out of 15%)

For 2018 a new method of measuring Guest Health was introduced which comprised a combination of three elements, Net Promoter Score ('NPS'), a combined social media score and guest complaints.

- The NPS target was set at 61, a further improvement on the 2017 outturn of 59. Good progress has been made across a number of our brands and the overall score for the year was ahead of target at 62.1.
- The target for the combined social media score (reputation.com) was set at 4.0. To achieve this the overall average review score across the business, combining TripAdvisor, Facebook and Google, needed to average 4.0. Achieving this level of review scores would have represented an outstanding performance, but the actual result fell just short of this ambitious target at 3.93.
- The guest complaints metric measures the proportion of complaints received for every 1,000 meals served. The target for this measure was set at 0.67, with the overall outcome of 0.70 just missing the required level of performance, but again an improvement on the prior year.

Despite good progress being made across all three elements of the Guest Health measure, no bonus was payable in respect of this measure.

Employee engagement (6.3% out of 10%)

A clear correlation has been established between employee engagement and guest satisfaction, which, in turn, has a positive impact on sales performance. Two surveys are held each year.

In June, employees are invited to provide feedback through a comprehensive survey, YourSay, and this is supplemented by a shorter 'pulse' survey in February. Overall, around two-thirds of employees participate providing valuable and robust insight into employee satisfaction.

The engagement target for 2018 was based on a combined score, with a greater weighting placed on the more comprehensive YourSay survey. The final outcome was a combined score of 78.9, which represented the highest ever employee engagement score, above the level of performance required for an on-target payment, but below that required for a maximum payment.

As a result, a payout equivalent to 6.3% (out of 10%), was awarded to Executive Directors under this element.

Food safety (5% out of 5%)

Food safety will always be a priority for the business, which is why a measure was introduced that is based on the number of businesses that achieve either a 4 or 5 rating in the independently operated National Food Hygiene Rating System ('NFHRS'). The stretching target set for 2018 was for 96.9% of businesses to achieve a score of either 4 or 5 over the year and the actual result was that 98% of businesses achieved this level. As a result, Mitchells & Butlers was second in the league table for large pub and restaurants across the country over 2018.

As an additional check, the Committee has also taken into account overall workplace safety which again has been strong in all areas.

The structure for this element is such that payout is based entirely on achieving the target set, therefore a payout equivalent to 5% was triggered against this element.

Final bonus outcome

In determining the overall final bonus outcome, the Committee considered the wider performance of the Group as part of an overall quality of earnings assessment and was satisfied that the outcome was consistent with our performance over the year and therefore the bonus awarded to Executive Directors is 39.3% of salary. As a result, payments of £200,034 and £167,283 will be made to Phil Urban and Tim Jones respectively.

In line with our policy, half of the bonus award will be deferred into shares under the Short Term Deferred Incentive Plan ('STDIP'), which will be released in two equal amounts after 12 and 24 months, and shares must be retained until the relevant shareholding guideline has been met.

1. As measured by the Coffer Peach business tracker, the UK's leading sales tracker for pubs and restaurants.

Performance Restricted Share Plan ('PRSP')

The 2016–18 PRSP award had two equally weighted elements: growth in adjusted earnings per share ('EPS'[a]) and total shareholder return ('TSR'). Over the performance period EPS growth was (1.5%) p.a. which was below the threshold level of performance required for vesting of 4% p.a. TSR performance was below the median threshold required for vesting and as a result, both elements of the award lapsed.

In my statement last year, I outlined the Committee's intention to take some time to consider the most appropriate measures and targets for future PRSP awards, given the uncertain market and the work ongoing to fully develop the range of Ignite initiatives.

Having considered the challenges the business faces and the importance the Board places on improving cash generation, the Committee agreed that a greater focus on cash flow was appropriate. This is an important area of focus given the significance of two fixed charges on cash flow which need to be covered before other more discretionary spend; namely pension deficit contributions under the current triennial agreement (2016) and mandatory bond amortisation.

The Committee considered a number of options for the measurement of cash flow and concluded that a definition of 'Operating Cash Flow before adjusted items, movements in working capital and additional pension contributions' best met our objectives of defining a cash flow measure that was understood, easy to monitor and communicate, and aligned to operational delivery. This definition is set out in our cash flow statement on page 104.

Capital Expenditure, working capital and pension contributions have been excluded from the definition. The Committee felt that the best way to take into account these elements was as part of the overall quality of earnings assessment undertaken at the end of the performance period. Further detail on the specific approach to the quality of earnings assessment can be found on page 83.

Threshold vesting for this part of the award will require around 2% p.a. growth in like-for-like sales and the delivery of further cost efficiencies, reversing the recent decline in profit and, on an earnings equivalent basis, resulting in a compound annual growth in Adjusted EPS[a] of approximately 2.5% p.a. Full vesting can only be achieved if many or most of the new programme of Ignite initiatives are successfully implemented, resulting in significant market outperformance and strong year-on-year growth in Operating Profit including an equivalent compound annual growth in Adjusted EPS[a] of approximately 5.5% p.a.

The Committee believed that the retention of TSR was important, as it allows shareholders to assess the performance of Mitchells & Butlers against direct competitors at a time when performance across the industry is quite polarised. Therefore, Mitchells & Butlers' performance for the 2018–20 award will be compared against a subset of Restaurants & Bars companies comprising EI Group, Greene King, Marston's, The Restaurant Group, JD Wetherspoon and Whitbread.

Threshold vesting will require Mitchells & Butlers' performance to be equal to the median of the peer group, and maximum vesting will require an outperformance of the median of 8.5% p.a. with straight-line vesting between median and maximum. The Committee believes an 8.5% p.a. outperformance factor for full vesting is stretching.

Following consultation with our major shareholders, an award was made in July 2018 under the PRSP in respect of the 2018–20 performance period, with 75% of the award based on Operating Cash Flow and 25% on relative TSR. Both Operating Cash flow and relative TSR will be measured over a three year performance period and any shares which vest will be subject to a further two year holding period.

Full details of the award are set out on page 84.

Remuneration policy and changes to the UK Corporate Governance Code

Our remuneration policy was approved at the 2018 AGM, with 97% of shareholders voting in favour of the new policy. No changes are proposed for this year.

The Committee is cognisant of the forthcoming changes to the Corporate Governance Code and other reporting regulations and has begun to prepare for their introduction. For the last two years we have published our CEO pay ratio and welcome the clarity the new code brings to the calculation and we will adopt a code-compliant methodology from this report onwards. We have also taken the opportunity to set out the impact of a 50% increase in share price on LTIP vesting.

We have also introduced a new section to the report which demonstrates how executive remuneration links to the overall strategy and the relationship between executive remuneration and that of other employees across the Group. We anticipate that this section of the report will evolve and develop over time and will align to the aims of the new code.

Approach for FY 2019

Salary

With effect from 1 January 2019, Phil Urban's salary will increase by 2% to £520,000 and Tim Jones' salary will also increase by 2% to £435,000. Phil Urban's salary has not increased since his appointment in September 2015 and Tim Jones' salary was last increased in January 2015. These increases are broadly in line with those applicable to other salaried employees in the group.

Annual bonus

No changes are proposed to the annual bonus structure for 2019.

Operating Profit (70%)

- Half of the bonus opportunity will be payable for achieving a demanding Operating Profit target. The threshold at which bonus will begin to accrue will again be set at 95% of target and full payment of this element will require very strong performance, above current market consensus.

The remaining 30% of the annual bonus plan will be allocated against the business scorecard as follows:

- 15% for Guest Health (NPS; combined social media scores and guest complaints)
- 10% for Employee Engagement
- 5% for Food Safety

The non-financial elements are only payable if a threshold level of profit is achieved. For 2019 this will again be set at 97.5% of the Operating Profit target.

In line with our established practice, the Committee will consider the overall performance of the Company, not just the outcome of each individual measure.

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2019–21 PRSP

A PRSP award is due to be made in respect of the 2019–21 performance period. The Committee has reviewed the performance condition and concluded that the performance measures should remain unchanged from the July 2018 award, with two independent elements, Operating Cash Flow (75% weighting) and relative TSR (25% weighting).

In setting the target range for 2019–21 the Committee has considered the ongoing cost headwinds that the business continues to face, along with the potential benefits flowing from Ignite initiatives in the coming years. The conclusion of this review is that the Operating Cash Flow target range will have a threshold set at £1,332m and maximum at £1,362m, which represents an increase at both threshold and maximum. The Committee considers this to be a stretching target range in the circumstances. On an earnings equivalent basis, the adjusted EPS target range will be between 4.5% and 7%, again, a further progression on the 2018–20 PRSP targets.

The current TSR comparator group comprises six peer companies (EI Group, Greene King, Marston's, The Restaurant Group, JD Wetherspoon and Whitbread). Following the announcement of the forthcoming sale of Costa Coffee by Whitbread to Coca-Cola, the Committee has further reviewed the constituents of this group. Once the Costa sale has concluded the residual Whitbread business will be primarily a hotels business, and therefore the Committee has decided that, going forward, Whitbread should not form part of the group. Threshold vesting will again require Mitchells & Butlers' performance to be equal to the median of the peer group, and maximum vesting requires an outperformance of the median of 8.5% p.a. with straight-line vesting between median and maximum.

In what has been another busy year for the Committee, I would like to thank my colleagues for their engagement and commitment and the efforts of those who have supported the Committee during the past year.

If you have any comments or questions on any element of the report, please email me, care of Craig Provett, Director of Compensation & Benefits, at Remco@mbplc.com

Imelda Walsh Chair of the Remuneration Committee

21 November 2018

This report has been prepared on behalf of the Board and has been approved by the Board. The report has been prepared in accordance with the Companies Act disclosure regulations (the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013) (the 'Regulations').

a. The Directors use a number of alternative performance measures (APMs) that are considered critical to aid the understanding of the Group's performance. Key measures are explained on pages 148 to 150 of this report.

Executive Remuneration at a glance

This section briefly highlights performance and remuneration outcomes for FY 2018, and our approach for FY 2019. More detail can be found in the Annual Report on remuneration on pages 78 to 91. Full details of the remuneration policy can be found on the mbplc.com website.

FY 2018 single figure remuneration for Executive Directors

	Basic salaries £000	Taxable benefits £000	Short-term incentives £000	Pension-related benefits £000	Long-term incentives £000	Other £000	Total remuneration £000
	2018	**2018**	**2018**	**2018**	**2018**	**2018**	**2018**
Phil Urban	509	16	200	89	–	5	819
Tim Jones	425	16	167	75	–	5	688
Total	**934**	**32**	**367**	**164**	**–**	**10**	**1,507**

The single figure table sets out payments made to Executive Directors in respect of FY 2018, including base salary, annual bonus earnings, long-term incentives, payments made in lieu of pension contributions and taxable benefits such as company car and healthcare cover. More detail is provided in relation to the 2018 annual bonus scheme and long-term incentive scheme outcomes below and a full version of the single figure table for all Directors can be found on pages 79 and 80.

FY 2018 annual bonus

The annual bonus was based on two elements: 70% on Operating Profit and 30% on non-financial scorecard measures.

	Target	Actual	Bonus outcome (% of salary)
Operating Profit	306	303	28
Guest Health			0
NPS	61	62.1	
Social Media	4.0	3.93	
Complaints	0.67	0.70	
Employee Engagement	78.5	78.9	6.3
Safety	96.9	98.0	5

Bonus payments equivalent to 39.3% of base salary will be made to Executive Directors (£200,034 in respect of Phil Urban and £167,283 in respect of Tim Jones). Half of the bonus award will be deferred into shares which will be released in two equal amounts after 12 and 24 months.

FY 2018 PRSP vesting

The PRSP awards granted in June 2016 had a performance period ending on 29 September 2018. 50% of the award was based on relative TSR performance and 50% on EPS growth.

	Target range	Actual	% vesting
Total Shareholder Return relative to peer group	Median to upper quartile	Below median	Nil
Compound annual adjusted EPS growth	4% to 8% CAGR	(1.5%) p.a.	Nil

TSR performance was below median and EPS growth of (1.5%) p.a. over the period was below the threshold, therefore no part of the award vested.

Approach for FY 2019

Components of remuneration

The remuneration package for the Executive Directors comprises both fixed and variable elements consistent with our remuneration principles.

Fixed

Salary
\+ Benefits and pension
= Fixed total

Variable

Annual bonus
\+ PRSP and shares
= Fixed total

Fixed components

Salary

On 1 January 2019 Phil Urban's salary will increase by 2% to £520,000 and Tim Jones' will also increase by 2% to £435,000. This is the first increase since Phil Urban's appointment on 27 September 2015 and Tim Jones' last increase was on 1 January 2015.

Benefits and pension

A pension contribution (or cash equivalent) of 20% of salary will continue to apply.

Phil Urban Chief Executive **£520,000** +2%

Tim Jones Finance Director **£435,000** +2%

Variable components

Annual bonus

No change to potential quantum – 100% of salary.

Measures will be:	Operating Profit	Guest Health	Employee Engagement	Food Safety
		Business scorecard measures		
	70%	**15%**	**10%**	**5%**

Half of any bonus payable will be deferred in the form of shares and released in equal parts after 12 and 24 months.

PRSP

Award levels (unchanged)

Phil Urban Chief Executive **200% salary**

Tim Jones Finance Director **140% salary**

	Threshold	Target Range	Maximum
	25% of this element vests		100% of this element vests
Measures and targets	**£1,332m**	**Operating Cash Flow**	**£1,362m**
	Median	**Total Shareholder Return**	**Median +8.5% p.a.**

The measures for the 2019–21 cycle are unchanged, with 75% of the award based on Operating Cash Flow and 25% on relative TSR.

A two-year holding period applies for all long-term incentive awards made from 2018 onwards.

Share ownership guidelines

Directors are required to retain all vested shares (net of tax) until the share ownership guideline is met. This applies to vested deferred bonus shares as well as shares vesting from any long-term incentive plans.

Phil Urban Chief Executive **200% salary**

All other Executive Directors **150% salary**

Remuneration context

This new section of the report sets out the broader context for remuneration explaining how executive reward links to Mitchells & Butlers' three strategic priorities and also between executive pay and remuneration across the Group. It is anticipated that this section will evolve over time, building on best practice and aligning with the new corporate governance requirements.

Mitchells & Butlers' remuneration principles

Shareholder alignment

A high proportion of reward is delivered in the form of equity, ensuring Executives have strong alignment with shareholders.

Competitive

Providing reward that promotes the long-term success of the business whilst enabling the attraction, retention and motivation of high-calibre senior Executives.

Performance-linked

A significant part of an Executive's reward is linked to performance with a clear line of sight between business outcomes and the delivery of shareholder value.

Straightforward

The remuneration structure is simple to understand for participants and shareholders and is aligned to the strategic priorities of the business.

Alignment of Executive pay to strategy

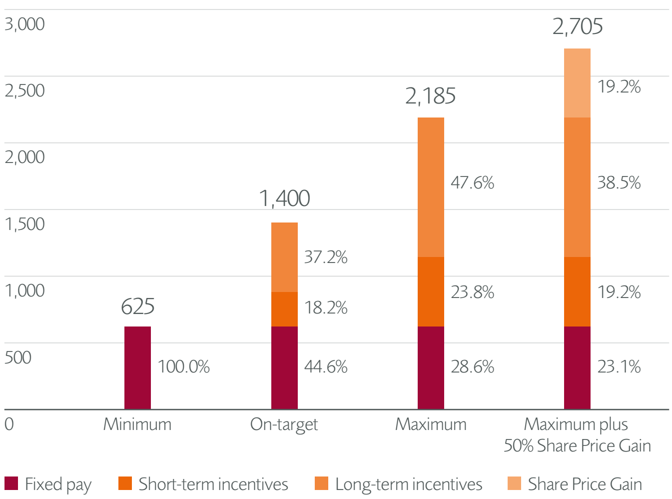
The table below sets out how the three strategic priorities of the business align to Executive remuneration for Executive Directors:

	Strategic priority	Link to Executive remuneration
Building a more balanced business	Strong cash flow and operating performance supports the delivery and sustainability of the capital plan and estate optimisation.	Operating Cash Flow is the main component of the LTIP. Operating Profit delivery is the main component of the annual bonus plan.
	A more balanced business delivers brands and food and drink offers in an environment that guests want to enjoy.	The Guest Health element of the annual bonus plan provides a strong indicator of the success of each business and there is a clear correlation between strong Guest Health performance and sales performance.
	High-quality engaged teams are fundamental to the success of any business.	The engagement element of the annual bonus plan measures how our teams feel about working for Mitchells & Butlers, and in turn the service they provide to guests.
Instilling a more commercial culture	A commercial culture improves controls, efficiency, purchasing and pricing, driving both improved cash flow and operating performance.	Operating Cash Flow is the main component of the LTIP. Operating Profit delivery is the main component of the annual bonus plan.
	Commercial decisions must be guest focused and benefit from the input of customer feedback.	The Guest Health quickly demonstrates where decisions are right or wrong and Executives are incentivised to react.
	Developing and evolving a commercial culture requires high levels of employee engagement and business awareness throughout the business.	The employee engagement element of the annual bonus plan supports and underpins the development of culture.
Driving an innovation agenda	Innovation at small and large scale is an engine for improved sales and therefore cash and profit generation.	Operating Cash Flow is the main component of the LTIP. Operating Profit delivery is the main component of the annual bonus plan.
	Guests' expectations continue to increase, demanding higher standards of service and digital capability.	The Guest Health element of the annual plan provides valuable actionable feedback and incentivises action.
	Innovation involves change and delivery of change requires strong employee engagement.	The employee engagement element of the annual bonus plan incentivises action to maintain and improve employee engagement.

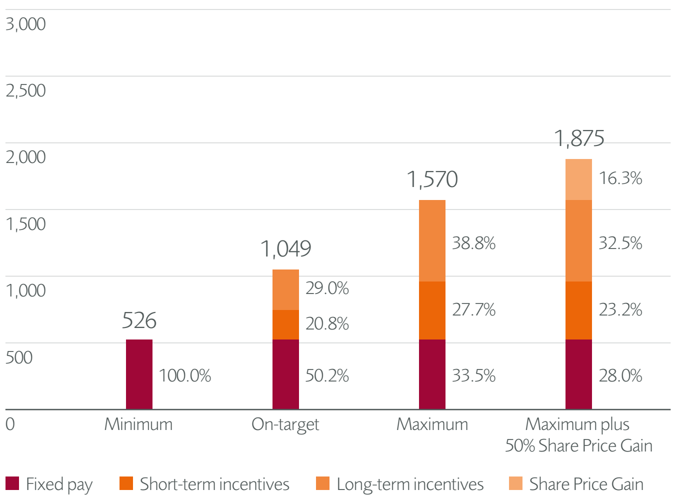
Illustrations of the application of remuneration policy

A key principle of the Group's remuneration policy is that variable short- and long-term reward should be linked to the financial performance of the Group. The charts below show the composition of the remuneration of the Chief Executive and Finance Director at minimum, on-target and maximum levels of performance in FY 2019. The charts also show the impact of a 50% increase in share price on the LTIP outcome.

Chief Executive £000



Finance Director £000



The performance scenarios demonstrate the proportion of maximum remuneration which would be payable in respect of each remuneration element at each of the performance levels. In developing these scenarios, the following assumptions have been made:

Minimum

Only the fixed elements of remuneration are payable. The fixed element consists of base salary, benefits and pension. Base salary is the salary effective from 1 January 2019. Benefits are based on actual FY 2018 figures and include company car, healthcare and taxable expenses. Pension is the cash allowance and/or Company pension contribution payable in respect of base salary from 1 January 2019.

On-target

In addition to the minimum, this reflects the amount payable for on-target performance under the short- and long-term incentive plans:

- 50% of maximum (50% of base salary for the Chief Executive and Finance Director) is payable under the short-term incentive plan; and
- 50% of the award (100% of base salary for the Chief Executive and 70% of base salary for the Finance Director) is payable under the long-term incentive plan.

Maximum

In addition to the minimum, maximum payment is achieved under both the short- and long-term incentive plans such that:

- 100% of base salary is payable under the short-term incentive plan for the Chief Executive and Finance Director; and
- 200% of base salary for the Chief Executive and 140% of base salary for the Finance Director is payable under the long-term incentive plan.

Share Price Gain

This shows the impact a 50% increase in the share price would have on the LTIP outcome.

Remuneration below Executive Director level

The table below demonstrates how the key elements of Executive pay align with the wider workforce:

<table>
<tr><th></th><th>Base pay</th><th>Bonus</th><th>Long-term incentives</th><th>All-employee share plans</th></tr>
<tr><td>Executive Directors</td><td rowspan="5">Pay broadly around mid-market levels.

Overall, increases (in percentage terms) consistent across all salaried employee groups.</td><td rowspan="5">Bonus schemes for all schemes align to the business scorecard.

The majority of bonus opportunity is linked to financial performance.</td><td rowspan="3">Measures and targets for long-term incentive plans consistent for all participants.</td><td rowspan="6">All employees can participate in any of the all-employee share schemes, subject to qualifying service, building a stake in the business.</td></tr>
<tr><td>Executive Committee</td></tr>
<tr><td>Senior management</td></tr>
<tr><td>Support Centre</td><td rowspan="2"></td></tr>
<tr><td>Retail managers</td></tr>
<tr><td>Retail team members</td><td>Pay set in line with market requirements and closely monitored.

Base pay for many employees is ahead of the statutory minimums.

Many employees benefit from tip and service charge, and it is Mitchells & Butlers' policy to pass 100% of these earnings on to employees.</td><td colspan="2">Our pay approach is aimed at providing regular and predictable earnings through competitive base pay for our retail team members. This is valued more highly than variable pay elements for retail team members and is in line with our 'competitive' and 'straightforward' remuneration principles.</td></tr>
</table>

Pay ratios and gender pay

The table below sets out the CEO pay ratio at the median, 25th and 75th percentiles.

	CEO pay ratio		
Financial year	**P25 (lower quartile)**	P50 (median)	P75 (upper quartile)
2018	**61:1**	58:1	52:1

More detail in relation to the pay ratio calculation can be found on page 89.

The table below provides a summary of Gender Pay data for the Group.

	2018 %	2017 %
Mean Pay Gap	**7.4**	8.1
Median Pay Gap	**4.7**	5.2
Mean Bonus Gap	**38.5**	27.6
Median Bonus Gap	**29.2**	20.6

At a Group level the pay gap has reduced overall on both measures and the median pay gap compares very favourably to the national average of 18.4%. More detail in relation to Gender Pay can be found as part of CSR section of the report on page 35.

More than just pay

Our employees are fundamental to the delivery of great guest experiences. For over a decade, Mitchells and Butlers has sought the views of employees through our annual 'Your Say' employee engagement survey. What this survey consistently tells us is that whilst pay is a very important element of the overall employee value proposition, there are other factors that are also important to our employees. Over the past year, the Company has taken the time to understand in more detail what these other factors are, developing what is known internally as our 'People Promise'. In developing our People Promise we have identified that all employees value career progression, fair reward, the need to be challenged and feel safe and secure; this is the minimum expectation. In addition to these core needs, employees also value the flexibility and convenience that working for Mitchells & Butlers brings, the sense of family that comes from working in our businesses and the variety and fun that a career in hospitality can provide. We believe that delivering against these areas for our people will further improve employee engagement and has resulted in a number of initiatives this year. For example, a new app is on trial that will allow employees to swap shifts with others easily; investment continues in our e-learning system that enables employees to develop on-job in a convenient and flexible way, and a number of policies have been reviewed to be more flexible and family focused.

Workforce engagement

Whilst not specifically consulted on Executive remuneration, feedback from employees is gathered in a number of ways through the year as shown in the illustration below:

Remuneration Committee

Employee survey

Outcomes reviewed by the Remuneration Committee and taken into account when setting remuneration policy, if appropriate.

CEO roadshows

The CEO and FD hold regular roadshows that allow both support centre colleagues and General Managers the opportunity to engage with senior leaders and provide feedback.

Employee forum

Elected representatives have direct access to the Executive Committee and for Executive remuneration matters, the Remuneration Committee chair.

Overview of pay and policy decisions

The Committee is updated on employee terms and conditions and made aware of significant changes to policies and other pay related matters.

The Committee is regularly updated throughout the year on pay and conditions applying to Group employees. Where significant changes are proposed to employment conditions and policies elsewhere in the Group, these are highlighted for the attention of the Committee at an early stage. The Committee takes into account the base pay review budget applicable to other employees and is cognisant of changes to the National Living Wage and the National Minimum Wage when considering the pay of Executive Directors. The Committee considers a broad range of reference points when determining policy and pay levels; these include external market benchmarks as well as internal reference points. Any such reference points are set in an appropriate context and are not considered in isolation.

As mentioned above, all employees are invited to take part in our annual 'YourSay' employee engagement survey in which they have an opportunity to provide anonymous feedback on a wide range of topics of interest or concern to them. The Committee reviews the results of the survey and any significant concerns over remuneration would be considered separately by the Committee and, if appropriate, taken into account when determining the remuneration policy and its implementation. In addition, each year an employee forum is held, which gives the opportunity for employees to ask questions of senior management, via elected representatives. Going forward, the Remuneration Committee Chair will attend the forum on an annual basis to respond to any questions raised by employee representatives concerning our approach to Executive pay.

Annual report on remuneration

This section details the remuneration payable to the Executive and Non-Executive Directors (including the Chairman) for the financial year ended 29 September 2018 and sets out how we intend to implement our remuneration policy for the 2019 financial year. This report, along with the Chair's annual statement, will be subject to a single advisory vote at the AGM on 22 January 2019.

Committee terms of reference

The Committee's terms of reference were last reviewed in 2016 and are available on our website. They will be reviewed again early in 2019 to take account of the revised Corporate Governance Code.

The Committee's main responsibilities include:

- determining and making recommendations to the Board on the Company's Executive remuneration policy and its cost;
- taking account of all factors necessary when determining the policy, the objective of which shall be to ensure the remuneration policy promotes the long-term success of the Company;
- determining the individual remuneration packages of the Executive Directors and other senior Executives (including all direct reports to the CEO), and the Company Chairman;
- having regard to the pay and employment conditions across the Company when setting the remuneration of individuals under the remit of the Committee; and
- aligning Executive Directors' interests with those of shareholders by providing the potential to earn significant rewards where significant shareholder value has been delivered.

Committee membership and operation

Committee members and their respective appointment dates are detailed in the table below.

Name	Date of appointment to the Committee
Imelda Walsh (Chair)*	11 July 2013
Colin Rutherford*	11 July 2013
Stewart Gilliland*	11 July 2013
Bob Ivell	11 July 2013
Eddie Irwin	11 July 2013
Dave Coplin*	29 Feb 2016
Josh Levy	20 July 2017

* Independent Non-Executive Directors.

Committee activity during the year

The Committee met six times during the year and key agenda items included the following:

October 2017	• 2018 annual bonus arrangements • Long Term Incentive Plan review • Remuneration policy review • Gender pay • Employee engagement
November 2017	• Remuneration policy • 2017 annual bonus outcome • 2015–17 LTIP outcome • Confirmation of 2018 bonus targets • Executive Committee members' salary review • Directors' expenses
March 2018	• Gender pay • Update on employment matters across the Group • 2018–20 LTIP proposal and timetable • All-employee share schemes
April 2018	• 2018–20 LTIP proposal • Gender pay update
May 2018	• 2018–20 LTIP – confirmation of targets and investor consultation timetable
September 2018	• 2019 annual bonus arrangements • 2019–21 LTIP structure • Update on employment conditions across the Group, including employee engagement • Changes to the UK Corporate Governance Code

Advice to the Committee

The Committee received advice from New Bridge Street ('NBS'), a trading name of Aon Plc, until June 2018. From June 2018 the Committee received advice from PwC on an interim basis pending the outcome of a competitive tender process. Both NBS and PwC are signatories to the Remuneration Consultants Group Code of Conduct and any advice received is governed by that Code. Total fees payable in respect of remuneration advice to the Committee in the reporting year totalled £75,962[1] (NBS £68,762 and PWC £7,200). Aon Plc provided advice on a potential insurance product, but no fees have been paid in respect of such advice in FY 2018.

Advice was also received from the Company's legal advisers, Freshfields Bruckhaus Deringer LLP, on the operation of the Company's employee share schemes and on corporate governance matters. Clifford Chance LLP also provided advice in relation to pension schemes.

The Committee is satisfied that the advice received from its advisers was objective and independent.

Members of management including Susan Martindale, the Group HR Director and Craig Provett, the Director of Compensation & Benefits, are invited to attend meetings on remuneration matters where appropriate. They are not present when matters affecting their own remuneration arrangements are decided. The Company Chairman does not attend Board or Committee meetings when his remuneration is under review. Phil Urban and Tim Jones were present at meetings where the Company's long- and short-term incentive arrangements and share schemes were discussed. However, each declared an interest in the matters under review.

1. Fees are shown net of VAT. 20% VAT was paid on the advisers' fees shown above.

Statement of voting at AGM

At the last AGM (held on 23 January 2018), the resolution on the Directors' remuneration policy and the Annual report on remuneration received the following votes from shareholders:

	Votes cast	Votes for[a]	%	Votes against	%	Votes withheld[b]
Directors' remuneration policy	368,083,115	357,056,085	97.00	11,027,030	3.00	244,331
Annual report on remuneration	366,642,591	365,544,870	99.71	1,097,721	0.29	1,702,855

a. The 'For' vote includes those giving the Company Chairman discretion.
b. A vote withheld is not a vote in law and is not counted in the calculation of the votes 'For' or 'Against' the resolution.

Votes 'For' and 'Against' are expressed as a percentage of votes cast.

Pay outcomes

The tables and related disclosures set out on pages 79 to 86 on Directors' remuneration, deferred annual bonus share awards ('STDIP'), PRSP share options, Share Incentive Plan and pension benefits have been audited by Deloitte LLP.

Directors' remuneration

The tables below set out the single figure remuneration received by the Executive Directors and the Non-Executive Directors during the reporting year. Details of performance under the annual bonus plan are set out on pages 80 to 82.

Executive Directors

	Basic salaries £000		Taxable benefits[a] £000		Short-term incentives £000		Pension related benefits[b] £000		Long-term incentives £000		Other[f] £000		Total remuneration £000	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017 (53 wk)
Phil Urban[c]	**509**	518	**16**	11	**200**	146	**89**	91	**–**	–	**5**	4	**819**	770
Tim Jones[c]	**425**	434	**16**	13	**167**	122	**75**	76	**–**	–	**5**	3	**688**	648
Sub-total Executive Directors	**934**	952	**32**	24	**367**	268	**164**	167	**–**	–	**10**	7	**1,507**	1,418

Non-Executive Directors

	Fees £000		Taxable benefits[d] £000		Short-term incentives £000		Pension related benefits[b] £000		Long-term incentives £000		Other £000		Total remuneration £000	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017 (53 wk)
Bob Ivell	**284**	290	**3**	4	**–**	–	**–**	–	**–**	–	**–**	–	**287**	294
Ron Robson	**52**	53	**0**	0	**–**	–	**–**	–	**–**	–	**–**	–	**52**	53
Stewart Gilliland	**62**	63	**1**	1	**–**	–	**–**	–	**–**	–	**–**	–	**63**	64
Eddie Irwin	**52**	53	**0**	0	**–**	–	**–**	–	**–**	–	**–**	–	**52**	53
Colin Rutherford	**62**	138[e]	**2.5**	1	**–**	–	**–**	–	**–**	–	**–**	–	**64.5**	139
Imelda Walsh	**62**	63	**0**	0	**–**	–	**–**	–	**–**	–	**–**	–	**62**	63
Josh Levy	**52**	53	**0**	1	**–**	–	**–**	–	**–**	–	**–**	–	**52**	54
Dave Coplin	**52**	53	**1**	1	**–**	–	**–**	–	**–**	–	**–**	–	**53**	54
Keith Browne	**52**	53	**0**	0	**–**	–	**–**	–	**–**	–	**–**	–	**52**	53
Sub-total Non-Executive Directors	**730**	819	**7.5**	8	**–**	–	**–**	–	**–**	–	**–**	–	**737.5**	827
Total Executive Directors and Non-Executive Directors	**1,664**	1,771	**39.5**	32	**367**	268	**164**	167	**–**	–	**10**	7	**2,244.5**	2,245

Note: All 2017 figures are shown on a 53 week basis.
a. Taxable benefits for the year comprised car allowance, healthcare and taxable expenses.
b. Based on the value of supplements paid in lieu of contributions to the Company Scheme.
c. The base salary for Phil Urban is £510,000 and for Tim Jones £426,500. The figures set out are the actual salaries received over the financial year, which had 364 days.
d. Taxable benefits for Non-Executive Directors include cash payments made or accounted for by the Company relating to the reimbursement of expenses (and the value of personal tax on those expenses).
e. This amount includes the additional fee approved by the Board and paid in respect of the work carried out by Mr Rutherford in leading the Company's discussions with the trustee of the Company's two defined benefit schemes which resulted in the agreement of the 2016 triennial valuations of those schemes as described more fully on page 45 of the Annual Report.
f. Includes the award of free shares and the value of the discount applied to Sharesave options awarded during the year.

Annual performance bonus and STDIP

The annual bonus and STDIP operate as set out in our remuneration policy which is available on the Company's website. Details of the measures and targets applying to the 2018 plan are set out below:

	Threshold – 95% of Target (% of salary payable)	Target (% of salary payable)	Maximum – 103% of Target (% of salary payable)	Outcome (% of salary payable)
Adjusted Operating Profit[a] (70%)	£290.7m (0%)	£306m (35%)	£315.2m (70%)	£303m (28%)

	Target	Calculation of outcome (% of salary payable)	Outcome (% of salary payable)
Guest Health (15%)			
Net Promoter Score ('NPS')	61	Each element is scored 1 if better than target, 0 if on target, and -1 if below target.	62.1 (0%)
Social Media Score	4.0	• If the sum of these scores is +3 than maximum bonus is paid. (15%)	3.9 (0%)
Complaints Ratio	0.67	• If the sum of these scores is +1 or +2 then an on-target payment would be made. (7.5%) • If the sum of these scores is 0 then threshold bonus is paid. (3.75%)	0.70 (0%)

	Threshold (% of salary payable)	Target (% of salary payable)	Maximum (% of salary payable)	Outcome (% of salary payable)
Employee Engagement (10%)*	77 (2.5%)	78.5 (5%)	80 (10%)	78.9 (6.3%)

	Target (% of salary payable)	Outcome (% of salary payable)
Food Safety (5%)	96.9% (5%)	98.0% (5%)

* Payout is on a straight-line basis between points.

Operating Profit

In determining the Operating Profit target range the Committee took into consideration a range of factors including the general and sector outlook, the continuing significant cost headwinds and the overall benefits likely to be realised over the financial year from the range of initiatives put in place as part of the Ignite programme. These cost headwinds continue to run at c.£60m per year and include further food and drink inflation, labour and energy costs and the ongoing impact of changes to the way in which business rates are calculated. The target was set broadly in line with the 2017 outturn (£308m on a 52 week basis) and market consensus. The level of performance required for a maximum award required a significant level of performance ahead of both the Company's business plan and market expectations.

Sales in the year were £2,152m and like-for-like sales increased by 1.3%, building on the 1.8% increase seen in 2017, and consistently above the market overall (as measured by the Coffer Peach business tracker)[2]. The Operating Profit outcome of £303m represented a resilient and credible performance over the year, which was impacted by unusual weather conditions. There were several bouts of snow over the winter and the extended period of hot weather, which combined with England's extended run in the World Cup, impacted on sales and profit both positively and negatively. For example, our Pubs division benefited from the good weather and the World Cup, whereas our Carvery businesses lost a number of key trading days to snow and then were impacted by the hot weather over the summer. Disposals at the end of FY17 also contributed a £4m decline in profits.

The Operating Profit outcome of £303m was 99% of the performance required for an on-target award resulting in a payout equivalent to 28% of salary (out of 70%) for Executive Directors.

The Committee carefully reflected on whether the proposed level of payout represented a good performance for the year and also the outcome versus the prior year. The Committee concluded that it did given the unprecedented cost challenges, which are set to continue, and our continuing outperformance versus competitors as measured independently.

2. The Coffer Peach business tracker is the UK's leading sales tracker for pubs and restaurants.

Non-financial measures – 30% (out of 100%)

Guest Health (0% out of 15%)

For 2018 a new method of measuring Guest Health was introduced which comprised a combination of three elements, Net Promoter Score ('NPS'), a combined social media score and guest complaints. This rounded assessment ensures that Guest Health is measured comprehensively and does not rely on a single measure.

- The NPS target was set at 61, a further improvement on the 2017 outturn of 59. Good progress was been made across a number of our brands and the overall score for the year was ahead of target at 62.1.
- The target for the combined social media score (reputation.com) was set at 4.0. To achieve the overall average review score across the business, combining all reviews from TripAdvisor, Facebook and Google, needed to average 4.0. Achieving this would have represented an outstanding performance but the actual result fell just short of this ambitious target at 3.93.
- The guest complaints metric measures the proportion of complaints received for every 1,000 meals served. The target for this measure was set at 0.67, with the overall outcome of 0.70 just missing the required level of performance, but again an improvement on the prior year.

Despite good progress being made across all three elements of the Guest Health measure, no bonus was payable for this part as the overall combined Guest Health score is below the demanding target set by the Committee.

Employee engagement (6.3% out of 10%)

A clear correlation has been established between employee engagement and guest satisfaction, which in turn has a positive impact on sales performance. Two surveys are held each year.

In June employees are invited to provide feedback through a comprehensive survey, YourSay, and this is supplemented by a shorter 'pulse' survey in February. Overall around two-thirds of employees contribute providing valuable and robust insight into employee satisfaction.

The engagement target for 2018 was based on a combined score across both surveys, with a greater weighting placed on the more comprehensive YourSay survey. The overall outcome was a combined score of 78.9, which represented the highest ever employee engagement score, above the level of performance required for an on-target payment, but below that required for a maximum payment.

As a result, a payout equivalent to 6.3% (out of 10%), was awarded to Executive Directors under this element.

Food safety (5% out of 5%)

Food safety will always be a priority for the business, which is why a measure was introduced that is based on the number of businesses that achieve either a 4 or 5 rating in the independently operated National Food Hygiene Rating System ('NFHRS'). The stretching target set for 2018 was for 96.9% of businesses to achieve a score of either 4 or 5 over the year and the actual result was that 98% of businesses achieved this level of performance. As a result, Mitchells & Butlers was second in the league table for large pub and restaurant groups across the country over 2018.

As an additional check, the Committee has also taken into account overall workplace safety which again has been strong in all areas.

The structure for this element is such that payout is based entirely on achieving the target set, therefore a payout equivalent to 5% was triggered against this element.

Final bonus outcome

In determining the overall final bonus outcome, the Committee considered the wider performance of the Group as part of an overall quality of earnings assessment and was satisfied that the outcome was consistent with our performance over the year and therefore the total bonus awarded to Executive Directors is 39.3% of salary resulting in bonus payments of £200,034 and £167,283 to Phil Urban and Tim Jones respectively.

In line with our policy, half of the bonus award will be deferred into shares under the Short Term Deferred Incentive Plan ('STDIP'), which will be released in two equal amounts after 12 and 24 months, and shares must be retained until the relevant shareholding guideline has been met.

Long-term incentives vesting during the year

During FY 2016 share awards were made to Phil Urban and Tim Jones, under the terms of the PRSP to the value of 200% and 140% of their respective base salaries. The performance condition had two independent elements; compound annual adjusted EPS growth and TSR performance against a group of sector peers, measured over the three year performance period ending 29 September 2018.

The table below summarises performance against each element of the performance conditions.

2016–18 PRSP – performance conditions	Threshold (25%) to Maximum (100%) Range**	Actual	% vesting
Total Shareholder Return relative to peer group* (50% weighting)	Median to upper quartile	Below median	Nil
Compound annual adjusted Earnings Per Share ('EPS') growth (50% weighting)	4% to 8% CAGR	(1.5%)p.a.	Nil

* Comprising the constituents of the FTSE All Share Travel and Leisure index. The base point for the TSR calculation was the first three months following the appointment of Phil Urban as CEO.

** Between threshold and maximum, vesting under each measure is on a straight-line basis. Below threshold the award will lapse.

The 2016–18 PRSP measures performance over a three-year period. Since the award was made, the well documented cost headwinds facing the business have impacted on earnings. Increases in business rates, labour costs, increasing inputs costs after the referendum results announcement, combining with an uncertain economic outlook, significantly impacted the ability of the business to grow. In this context the overall result is a resilient performance but as EPS fell below the threshold level of growth required, and TSR performance fell below the median performance of the comparator group, the FY 2016 plan awards lapsed in full.

Long-term incentive awards made in FY 2018

As we explained in last year's report, during 2018 a full review of the LTIP structure was undertaken. The Committee concluded this review in June following a consultation with major shareholders. Details of the changes and rationale are set out below.

Operating Cash Flow – 75% of the award

Having considered carefully the challenges the business faces and the importance the Board places on improving cash generation, the Committee agreed to include a measure that covered cash flow. Cash flow is an important area of focus given the significance of two fixed charges, which need to be covered before other more discretionary spend, namely pension deficit contributions under the current triennial agreement and mandatory bond amortisation within the existing securitisation.

Neither of these substantial outflows results in a direct charge to the income statement, but they do significantly influence Group decisions concerning capital allocation, short-term borrowings and dividends to shareholders, which must be assessed predominantly on a cash rather than on an earnings basis.

The Committee considered a number of options for the measurement of cash flow and concluded that the following definition best meets our objectives of defining a cash flow measure that is well understood, easy to monitor and communicate, and aligned to operational delivery; 'Operating Cash Flow before adjusted items, movements in working capital and additional pension contributions'. This definition is set out in our reported cash flow statement on page 104.

Working capital and pension contributions were excluded from the definition. Working capital can be volatile as the Company's year-end date moves and can therefore be impacted by significant VAT, rent, rates and payroll payments falling either side of this date. The Committee is aware that working capital actions can also provide a benefit to vesting outcomes. A three year cumulative measure will reduce the likelihood of both positive and negative impacts but a thorough review of the Group's working capital position at the end of the performance period will be undertaken as part of the overall quality of earnings assessment when finalising the vesting outcome. Pension contributions for the third year are uncertain and will depend on the outcome of the next triennial review.

The Committee also considered how capital expenditure should be treated, given the importance of the capital plan to our strategic aims. Over a three year period, it may be appropriate to increase or decrease capital expenditure, depending on the circumstances at the time. If capital expenditure was deducted from cash flow, then discretionary decisions taken in relation to capital expenditure could impact vesting outcomes. The Committee felt that the best approach was to review the level of capital expenditure and, specifically, the return on expansionary capital (a current KPI) over the period, again, as a part of the overall quality of earnings assessment.

Threshold vesting for this part of the award will require around a 2% p.a. growth in like-for-like sales[a] and the delivery of further cost efficiencies, reversing the recent decline in profits. On an earnings equivalent basis threshold vesting would result in compound annual growth in Adjusted EPS[a] of approximately 2.5% p.a. Full vesting of this element can only be achieved if many or most of the new programme of initiatives are successfully implemented leading to significant market outperformance and strong year-on-year growth in Operating Profit, resulting in an equivalent compound annual growth in Adjusted EPS[a] of approximately 5.5% p.a.

Overall, the Committee considered that the range set from threshold to maximum was demanding, given the significant cost headwinds the Company is faced with.

Rationale for the retention of TSR as a performance measure

The Committee believed that the retention of TSR as a measure was important as it allows shareholders to assess the performance of Mitchells & Butlers against direct competitors at a time when performance across the industry is quite polarised.

However, the Committee considered it more appropriate to compare Mitchells & Butlers' performance against a subset of Restaurants & Bars, and the Committee identified six peer companies to form the TSR peer group for the 2018–20 award – EI Group, Greene King, Marston's, The Restaurant Group, JD Wetherspoon and Whitbread.

Threshold vesting will require Mitchells & Butlers' performance to be equal to the median of the peer group, and maximum vesting will require an outperformance of the median of 8.5% p.a., with straight-line vesting between median and maximum. The Committee believes an 8.5% p.a. outperformance factor for full vesting is stretching. It is equal to the historic average gap between median and upper quartile of the group using historic three-year returns over the last six years.

The TSR element of the award is also subject to a share price underpin and awards may only be exercised where the Mitchells & Butlers share price has equalled or exceeded the share price at the date of award within six months of the vesting date. If this condition is not met, then the TSR-related awards will lapse.

Summary of investor consultation

Prior to making the awards major investors were consulted on the above proposals, covering around 90% of the issued share capital, along with the major institutional advisers (The Investment Association, ISS and Glass Lewis). Overall, investors were generally supportive of the proposals with some investors asking further questions in relation to the stretch in the target range for Operating Cash Flow. In the Committee's view the target range was more demanding than consensus (using EPS and Operating Profit comparators) at the time the target range was set and, given the significant cost headwinds which Mitchells & Butlers faced over the performance period and the uncertain consumer backdrop, shareholders generally accepted that the range looked demanding. We also had a positive reaction to the clarity and assurance we provided in relation to the quality of earnings assessment that will be undertaken prior to confirming vesting. The Committee has in the past demonstrated a willingness to make adjustments based on the circumstances at a particular time. For example, in 2016 the PRSP award was adjusted to ensure that there was no potential benefit to Executive Directors as a result of the fall in the Mitchells & Butlers share price following the outcome of the referendum on the membership of the European Union.

Following the conclusion of the consultation process, an award was made to the Chief Executive and the Finance Director in July 2018. 75% of the award is based on Operating Cash Flow and 25% on Relative TSR, with both Operating Cash Flow and Relative TSR measured over a three year performance period and any shares which vest, subject to a further two year holding period.

	Threshold vesting target*	Maximum vesting target*
1. Operating Cash Flow (75% of the award)	£1,306m (25% vests)	£1,336m (100% vests)
2. Total Shareholder Return ('TSR') relative to a peer group of comparator companies** (25% of the award)	25% will vest for matching the median of the group	100% will vest for TSR performance that exceeds the median by 8.5% p.a.

* Between threshold and maximum, vesting under each measure is on a straight-line basis. Below threshold the award will lapse.
** Comprising of EI Group, Greene King, Marston's, The Restaurant Group, JD Wetherspoon and Whitbread.

Options that vest under the TSR element of the performance condition may only be exercised where the share price has equalled or exceeded the share price at the date of grant on at least one day within six months following the vesting date. If this condition is not met, then the vested option will lapse.

The Operating Cash Flow and TSR conditions are measured over three years from the start of the financial year in which they are granted. Full details of awards made to Executive Directors under the PRSP are set out below:

	Nil Cost Options awarded during the year to 29/09/18	Basis of award (% of basic annual salary)	Award date	Market price per share used to determine the award (p)*	Actual/ planned vesting date	Latest lapse date	Face value** £
Executive Directors							
Phil Urban	393,517	200	03/07/18	259.2	Nov 2020	Nov 2022	1,019,996
Tim Jones	230,361	140	03/07/18	259.2	Nov 2020	Nov 2022	597,096
Total	**623,878**						

* Market price is the MMQ on the day prior to the award being made.
** Face value is the maximum number of shares that would vest (excluding any dividend shares that may accrue) if the performance measure (as described above) is met in full, multiplied by the middle market quotation of a Mitchells & Butlers share on the day the award was made (259.2p).

The aggregate option price of each award is £1. Performance measurement under the PRSP, which is not re-tested, is reviewed and certified by the Company's auditor.

All-employee SIP and Sharesave

The tables below show the awards made to Directors under the Sharesave scheme and the free share element of the SIP during the year.

Sharesave

	Shares awarded during the year 1/10/17 to 29/09/18	Award date	Option price (p)	Earliest exercise date	Last expiry date
Director					
Phil Urban	7,317	20/06/18	246	1/10/21	31/3/22
Tim Jones	7,317	20/06/18	246	1/10/21	31/3/22
Total	**14,634**				

SIP

	Shares awarded during the year 1/10/17 to 29/09/18	Award date	Market price per share at award (p)	Normal vesting date	Market price per share at normal vesting date (p)	Lapsed during period
Director						
Phil Urban	1,322	20/06/18	262.2	20/06/21	n/a	n/a
Tim Jones	1,127	20/06/18	262.2	20/06/21	n/a	n/a
Total	**2,449**					

Directors' entitlements under the Partnership Share element of the SIP are set out as part of the Directors' interests table on page 86.

PRSP, STDIP and other share awards

The table below sets out details of the Executive Directors' outstanding awards under the PRSP, STDIP and Sharesave (SAYE).

Name of Director	Scheme	Number of shares at 30 September 2017	Granted during the period	Date of grant	Lapsed during the period	Exercised during the period	Number of shares at 29 September 2018	Date from which exercisable	Expiry date
Phil Urban	PRSP 2015–17[ab]	61,738	–	Jan 2015	61,738	–	–	Nov 2017	Nov 2019
	PRSP 2016–18[ac]	381,022	–	June 2016	–	–	381,022	Nov 2018	Nov 2020
	PRSP 2017–19[a]	397,970	–	Nov 2016	–	–	397,970	Nov 2019	Nov 2021
	PRSP 2018–20[d]	–	393,517	July 2018	–	–	393,517	Nov 2020	Nov 2022
	STDIP 2017	–	28,639	Dec 2017			28,639	Dec 2018[e]	Dec 2019
	SAYE 2015	4,972	–	June 2015	–	–	4,972	Oct 2018	Mar 2019
	SAYE 2018	–	7,317	June 2018			7,317	Oct 2021	Mar 2022
	Total	**845,702**	**429,473**		**61,738**	**–**	**1,213,437**		
Tim Jones	PRSP 2015–17[a]	161,856	–	Nov 2014	161,856	–	–	Nov 2017	Nov 2019
	PRSP 2016–18[ac]	223,048	–	Jun 2016	–	–	223,048	Nov 2018	Nov 2020
	PRSP 2017–19[a]	232,968		Nov 2016	–	–	232,968	Nov 2019	Nov 2021
	PRSP 2018–20[d]	–	230,361	July 2018	–	–	230,361	Nov 2020	Nov 2022
	STDIP 2017	–	23,950	Dec 2017	–	–	23,950	Dec 2018[e]	Dec 2019
	SAYE 2015	2,486	–	June 2015	–	–	2,486	Oct 2018	Mar 2019
	SAYE 2018	–	7,317	June 2018			7,317	Oct 2021	Mar 2022
	Total	**620,358**	**261,628**		**161,856**	**–**	**720,130**		

a. 50% of this PRSP award is subject to a TSR condition and the other 50% is subject to adjusted EPS growth targets.
b. Shares awarded to Phil Urban on joining the Company as Chief Operating Officer in January 2015.
c. The 2016–18 plan will lapse in November 2018.
d. 75% of this PRSP award is subject to an Operating Cash Flow target and the remaining 25% is subject to a TSR condition.
e. Shares released in two equal tranches, 12 and 24 months after grant. Date shown is first release date.

Update on forecast performance of other PRSP awards

2017–19 PRSP

With one performance year remaining, the position could change but specifically in relation to the EPS measure, the significant additional cost challenges and a more detailed assessment of the timing and impact of investment, result in a forecast level of vesting below the threshold level.

Directors' interests

Executive Directors are expected to hold Mitchells & Butlers shares in line with the shareholding guideline set out in the remuneration policy report.

This requires the Chief Executive to accumulate Mitchells & Butlers shares to the value of a minimum of 200% of salary (150% of salary for other Executive Directors) through the retention of shares arising from share schemes (on a net of tax basis) or through market purchases. Phil Urban's shareholding at 29 September 2018 was 48.7% of his basic annual salary (2017, 24.9%) and Tim Jones' shareholding was 57.6% of his basic annual salary (2017 45.2%) and as a result the shareholding guideline is not met.

The interests of the Directors in the ordinary shares of the Company as at 29 September 2018 and 30 September 2017 are as set out below:

	Wholly owned shares without performance conditions[a]		Shares with performance conditions		Unvested options/ awards without performance conditions[b]		Unvested options/ awards with performance conditions[c]		Vested but unexercised options		Total shares/options	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Executive Directors												
Phil Urban	**97,024**	53,042	**–**	–	**40,928**	4,972	**1,172,509**	840,730	**–**	–	**1,310,461**	898,744
Tim Jones	**95,944**	80,461	**–**	–	**33,753**	2,486	**686,377**	617,872	**–**	–	**816,074**	700,819
Non-Executive Directors												
Bob Ivell	**12,006**	12,006	**–**	–	**–**	–	**–**	–	**–**	–	**12,006**	12,006
Ron Robson	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Stewart Gilliland	**11,000**	11,000	**–**	–	**–**	–	**–**	–	**–**	–	**11,000**	11,000
Eddie Irwin	**31,560**	30,974	**–**	–	**–**	–	**–**	–	**–**	–	**31,560**	30,974
Colin Rutherford	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Imelda Walsh	**7,500**	7,500	**–**	–	**–**	–	**–**	–	**–**	–	**7,500**	7,500
Dave Coplin	**2,042**	2,000	**–**	–	**–**	–	**–**	–	**–**	–	**2,042**	2,000
Josh Levy	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Keith Browne	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Total	**257,076**	196,983	**–**	–	**74,681**	7,458	**1,858,886**	1,458,602	**–**	–	**2,190,643**	1,663,043

a. Includes Free Shares and Partnership Shares granted under the SIP.
b. Options granted under the Sharesave as detailed in the table on page 85 and deferred bonus awards granted under the STDIP.
c. Options granted under the PRSP as detailed in the table on page 84.

Directors' shareholdings (shares without performance conditions) include shares held by persons closely associated.

The above shareholdings are beneficial interests and are inclusive of Directors' holdings under the Share Incentive Plan (both Free Share and Partnership Share elements).

Phil Urban acquired 105 shares and Tim Jones acquired 106 shares under the Partnership Share element of the Share Incentive Plan between the end of the financial year and 21 November 2018. There have been no changes in the holdings of any other Directors since the end of the financial year.

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 29 September 2018 was 264.0p and the range during the year to 29 September 2018 was 231.4p to 283.1p per share.

The Executive Directors as a group beneficially own 0.06% of the Company's shares.

Fees for external directorships

No external non-executive directorships were held by either Executive Director during the year to 29 September 2018.

Payment for loss of office

No payments for loss of office were made in the year ended 29 September 2018.

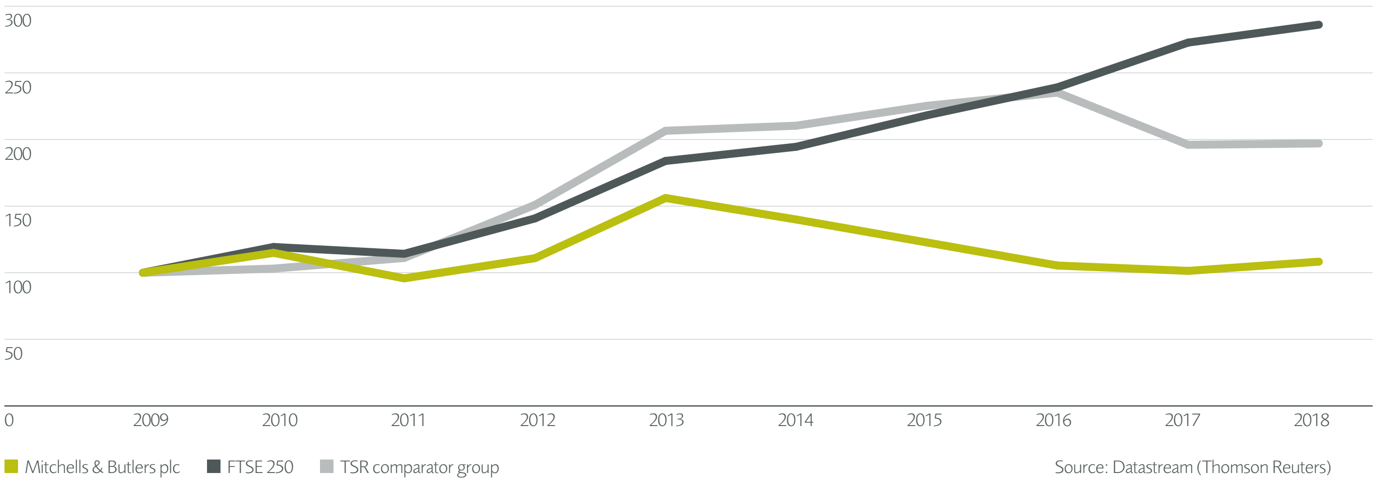
Payments to past Directors

No payments were made to any past Directors in the year ended 29 September 2018.

TSR performance graph

The Company's TSR performance for the last nine financial years is shown below against the FTSE 250 index. The FTSE 250 index has been chosen to show TSR performance as the Company is a member of the FTSE 250.

Total shareholder return from September 2009 to September 2018 (rebased to 100)



Source: Datastream (Thomson Reuters)

This graph shows the value, by 29 September 2018, of £100 invested in Mitchells & Butlers plc on 26 September 2009, compared with the value of £100 invested in the FTSE 250 and the constituents of the 2018–20 TSR comparator group on the same date.

CEO earnings history

Year ended	25/09/10	24/09/11	29/09/12	28/09/13	27/09/14	26/09/15	24/09/16	30/09/17	**29/09/18**
Phil Urban									
Single figure remuneration (£000)	–	–	–	–	–	–	613	770	**819**
Annual bonus outcome (% of max)	–	–	–	–	–	–	–	28	**39**
LTIP vesting outcome (% of max)	–	–	–	–	–	–	–	–	
Alistair Darby								–	
Single figure remuneration (£000)	–	–	–	982[a]	642	878	–	–	
Annual bonus outcome (% of max)	–	–	–	71.0	–	–	–	–	
LTIP vesting outcome (% of max)	–	–	–	n/a	n/a	19.0	–	–	
Bob Ivell								–	
Single figure remuneration (£000)	–	–	557	69[b]	–	–	–	–	
Annual bonus outcome (% of max)	–	–	n/a[c]	n/a[c]	–	–	–	–	
LTIP vesting outcome (% of max)	–	–	n/a[c]	n/a[c]	–	–	–	–	
Jeremy Blood								–	
Single figure remuneration (£000)	–	397	50	–	–	–	–	–	
Annual bonus outcome (% of max)	–	–[d]	n/a[c]	–	–	–	–	–	
LTIP vesting outcome (% of max)	–	n/a[c]	–	–	–	–	–	–	
Adam Fowle								–	
Single figure remuneration (£000)	1,315	483[e]	–	–	–	–	–	–	
Annual bonus outcome (% of max)	87.6	16.0	–	–	–	–	–	–	
LTIP vesting outcome (% of max)	16.2	24.2	–	–	–	–	–	–	

a. Alistair Darby formally took up the position of CEO on 12 November 2012 following a short period of induction and handover. The figure shown reflects the date of his appointment to the Board (8 October 2012).
b. Figure shown is up to and including 11 November 2012 as Bob Ivell remained Executive Chairman to this date.
c. The Director was not a participant in the plan.
d. Jeremy Blood was not a participant in the short-term incentive plan; at the discretion of the Board a payment of £100,000 was made in respect of his contribution as Interim Chief Executive. This payment is included in the single remuneration figure (£397,000) above. Earnings exclude the fee payable for the period 26 September 2010 to 14 March 2011 during which Mr Blood served as a Non-Executive Director.
e. Earnings disclosed are to 15 March 2011 when Mr Fowle stepped down as CEO.

Change in remuneration of the CEO

	Salary (£)			Taxable benefits (£)			Bonus (£)		
	2018	2017	% Change	**2018**	2017	% Change	**2018**	2017	% Change
CEO	**510,000**	510,000	0	**15,557**	15,134	2.8	**200,034**	145,546	37.4
Salaried employees	**32,383**	31,572	2.6	**728**	704	3.4	**2,449**	2,739	(10.6)

The change in CEO remuneration is compared to the change in average remuneration of all full-time salaried employees, which includes house managers, assistant managers and kitchen managers employed in our businesses.

Salaried employees with part-year service in either FY 2017 or FY 2018 have been excluded from the comparison figures. Retail staff employees have been excluded from the comparator group as they are hourly paid, largely part time and do not participate in any bonus plans. The CEO figures do not include LTIP awards or pension benefits that are disclosed in the single figure table.

CEO pay ratios

For the last two years Mitchells & Butlers has disclosed the pay ratio between the CEO and the median pay of other employees, reflecting emerging best practice. The Government has now introduced legislation that will require all quoted companies with more than 250 employees to publish the ratio of their CEO's pay, using the single figure for total CEO remuneration to that of the median, 25th and 75th percentile total remuneration of full-time equivalent employees. Whilst this legislation does not require Mitchells & Butlers to comply until the 2020 Annual Report the Committee feels that it is important to continue to take a lead in this area, as it provides a helpful opportunity to demonstrate the link between CEO pay in the context of overall workforce remuneration. The table below sets out the CEO pay ratio at the median, 25th and 75th percentile.

	CEO pay ratio		
Financial year	**P25 (lower quartile)**	P50 (median)	P75 (upper quartile)
2018	**61:1**	58:1	52:1

The lower quartile, median and upper quartile employees were calculated based on full-time equivalent base pay data as at 29 September 2018. This calculation methodology was selected as the data was felt to be the most accurate way of identifying the best equivalents of P25, P50 and P75.

The employee pay data has been reviewed and we are satisfied that it fairly reflects the relevant quartiles given the very large proportion of hourly paid team members employed by Mitchells & Butlers (c.86% of the total workforce). The three representative employees used to calculate the pay ratios are hourly paid and the base pay elements were calculated using a full-time equivalent hourly working week of 35 hours. Hourly paid employees do not participate in the annual bonus plan or long-term incentive plan and in most cases do not have any taxable benefits. Employee pay does not include earnings from tips and service charge, from which many employees benefit. It is Mitchells & Butlers' policy to pass all earnings from tips and service charges to employees.

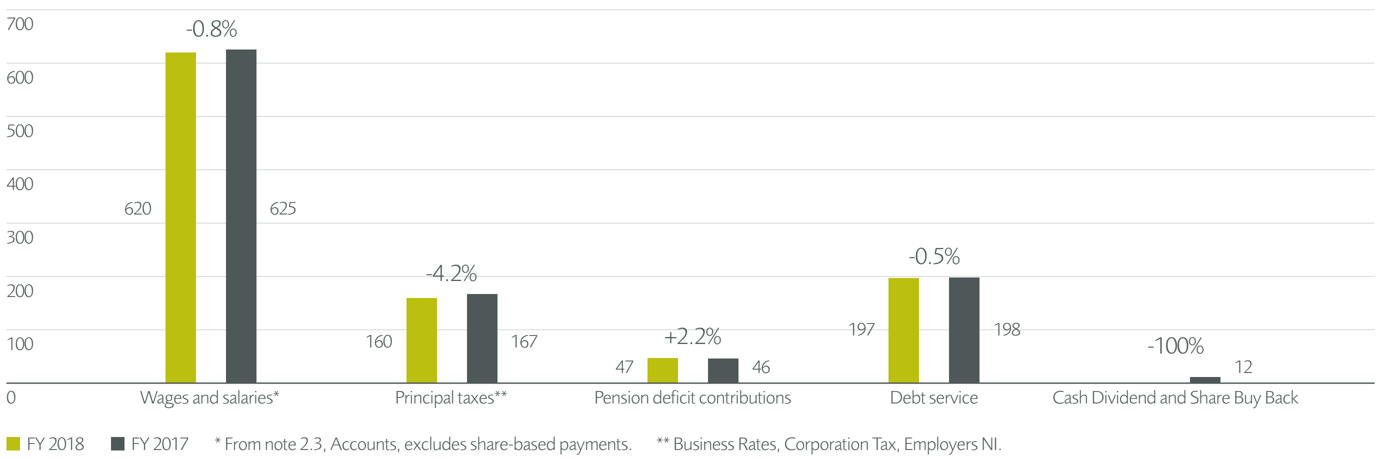
Pay details for the individuals are set out below:

	CEO	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
Salary	508,603	13,432	14,177	15,616
Total pay	819,045	13,432	14,177	15,616

The median pay ratios reported in 2016 and 2017 were completed using a different methodology that calculated actual pay and benefits over the financial year for all employees who had been employed for the full financial year. This methodology is not compliant with the new regulations, but overall the median pay ratio is broadly in line with prior years at 63:1 in 2017 and 44:1 in 2016, a year in which no bonus was paid to the CEO.

In assessing our pay ratio versus likely ratios from industry peers, we believe that we are towards the lower end of the range but note that annual and long-term incentive payments have varied considerably amongst this group. In our case, the CEO single figure comprises fixed pay, taxable benefits, pension benefits and bonus only, given that no long-term incentive vested in respect of performance in FY 2018, or in any of the prior years. We also recognise that ratios will be influenced by levels of employee pay, and in the hospitality sector, despite significant increases over the past year, employee pay will be lower than in many other sectors of the economy.

Relative importance of spend on pay £m



* From note 2.3, Accounts, excludes share-based payments. ** Business Rates, Corporation Tax, Employers NI.

Figures shown for wages and salaries consist of all earnings, including bonus. In FY 2018, £2m (0.3%) was paid to Executive and Non-Executive Directors (2017 £2m (0.3%)).

The fall in wages and salaries and principal taxes are primarily a result of disposals made in 2017.

Details of service contracts and letters of appointment

Details of the service contracts of Executive Directors are set out below.

Director	Contract start date	Unexpired term	Notice period from Company	Minimum notice period from Director	Compensation on change of control
Phil Urban[a]	27/09/15	Indefinite	12 months	6 months	No
Tim Jones	18/10/10	Indefinite	12 months	6 months	No

a. Phil Urban became Chief Executive and joined the Board on 27 September 2015. His continuous service date started on 5 January 2015, the date on which he joined the Company as Chief Operating Officer.

Non-Executive Directors

Non-Executive Directors, including the Company Chairman, do not have service contracts but serve under letters of appointment which provide that they are initially appointed until the next AGM when they are required to stand for election. In line with the Company's Articles, all Directors, including Non-Executive Directors, will stand for re-election at the 2019 AGM (with the exception of Stewart Gilliland who intends to step down from the Board before then). This is also in line with the recommendations set out in paragraph B.7.1 of the UK Corporate Governance Code. Non-Executive Directors' appointments are terminable without notice and with no entitlement to compensation. Payment of fees will cease immediately on termination.

Ron Robson and Josh Levy were appointed to the Board pursuant to the terms of the Piedmont Deed of Appointment, information on which is set out on page 51.

Copies of the individual letters of appointment for Non-Executive Directors and the service contracts for Executive Directors are available at the Registered Office of the Company during normal business hours and on our website. Copies will also be available to shareholders to view at the 2019 AGM.

Implementation of remuneration policy in FY 2019

Executive Directors' salary review

Salary increases take effect from 1 January 2019 and, from this date, Phil Urban's salary will be increased to £520,000 (2%) and Tim Jones' salary will be increased to £435,000 (2%). Phil Urban's salary has not increased since his appointment in September 2015 and Tim Jones' salary was last increased in January 2015. These increases are broadly in line with those applicable to other salaried employees in the Group and follow an extended period during which Executive Directors' salaries have not been increased.

Annual performance bonus

The maximum bonus opportunity will remain at 100% of salary for the Chief Executive and Finance Director with 70% of bonus to be based on Operating Profit and the remaining 30% on non-profit elements linked to the business scorecard.

	Weighting	Details
Operating Profit	70%	Bonus will begin to accrue at threshold with half of the bonus payable for on-target performance, reflecting the demanding nature of the targets set by the Committee. Full payment will require very strong performance, well in excess of current market consensus.
Guest Health	15%	Guest Health will comprise three measures, each with an equal weighting: • **NPS** – a well-established measure of Guest Health, will continue to be assessed in FY 2019. • **Social media** – The monitoring tool enables all social media reviews, including TripAdvisor, Facebook and Google, to be combined into a single review score. • **Guest complaints** – There has been an increased focus on improving the speed at which guest complaints are resolved, alongside a commitment to reducing the overall number of complaints received. Combining NPS with an assessment of social media reviews and guest complaints provides a more holistic review of Guest Health. To achieve a maximum payment, performance will need to exceed target on at least two elements, and be at target or better, for the third element.
Employee engagement	10%	Mitchells & Butlers has measured employee engagement for a number of years, and a clear correlation has been established between employee engagement and guest satisfaction, which in turn has a positive impact on sales. For this reason, the Committee has decided to include employee engagement in the bonus scheme.
Food Safety	5%	Food safety will always be a key priority and including a measure based on the proportion of our businesses that achieve a high National Food Hygiene Rating Scheme score reflects our continued focus on the safe operation of our businesses. An agreed food safety score must be achieved for this part of the bonus to payout and, as an additional check, overall workplace safety will also be taken into account when determining the outcome.

The non-financial elements will only become payable if a certain level of Operating Profit has been achieved. For 2019, this will remain at 97.5% of target, which is ahead of the threshold required for payment under the Operating Profit measure.

There will also be a change to the method used to calculate NPS. Previously it was calculated on a 'Business Weighted' basis where each pub or restaurant carried the same weight irrespective of business size and the number of responses. Going forward scores will be calculated on a 'Response Weighted' basis where the score treats all responses as equally important, i.e. larger businesses with more responses will have a relatively greater bearing on the overall score than they do now, therefore providing a better representation of guest satisfaction and performance as each individual guest response carries the same weighting.

The Committee will continue to consider the overall performance of the Company, not just the outcome of each individual measure. All bonus targets are considered to be commercially sensitive and will not be disclosed in advance. However, retrospective disclosure of targets and performance against them will be provided in next year's Directors' remuneration report.

The bonus structure for all Managers across Mitchells & Butlers is linked to the above business scorecard.

Performance Restricted Share Plan (PRSP) 2019–21

The Committee has concluded that the performance measures should remain unchanged from the July 2018 award, with two independent elements, Operating Cash Flow (75% weighting) and relative TSR (25% weighting).

In setting the target range for 2019–21, the Committee has considered the ongoing cost headwinds that the business continues to face, the upward pressure on food and drink inflation, along with the potential benefits flowing from the Ignite initiatives over the coming years. The conclusion of this review is that the Operating Cash Flow target range will have a threshold set at £1,332m and maximum at £1,362m, which represents an increase at both threshold and maximum.

On an earnings equivalent basis, the adjusted EPS[a] target range will be between 4.5% and 7%, again a further progression on the 2018–20 PRSP targets.

The current TSR comparator group comprises six peer companies (EI Group, Greene King, Marston's, The Restaurant Group, JD Wetherspoon and Whitbread). Following the announcement of the forthcoming sale of Costa Coffee by Whitbread to Coca-Cola the Committee has further reviewed the constituents of this group. Once the Costa sale has concluded, the residual Whitbread business will be primarily a hotels business and therefore the Committee has concluded that, going forward, Whitbread should not form part of the peer group. The removal of Whitbread from the peer group reduces the number of constituents to five and the Committee has considered carefully if Whitbread could be replaced by an alternative company. Having taken all factors into account, the Committee has concluded that the most appropriate approach is to continue with the slightly smaller comparator group, as this results in a well matched group making it more likely that any outperformance will be linked to management and Company action.

A summary of the performance measures and targets are set out in the table below:

	Threshold vesting target*	Maximum vesting target*
1. Operating Cash Flow (75% of the award)	£1,332m (25% vests)	£1,362m (100% vests)
2. Total Shareholder Return ('TSR') relative to a peer group of comparator companies** (25% of the award)	25% will vest for matching the median of the group	100% will vest for TSR performance that exceeds the median by 8.5% p.a.

* Between threshold and maximum, vesting under each measure is on a straight-line basis. Below threshold the award will lapse.
** Comprising EI Group, Greene King, Marston's, The Restaurant Group and JD Wetherspoon.

Non-Executive Directors' fee review

The Chairman's and Non-Executive Director fee were last reviewed in January 2015. The Chairman has indicated that he does not wish to have his fee increased at this time. As detailed in the corporate governance section of this report, the base fee for Non-Executive Directors will increase by 2% to £53,000 per annum and the fee paid to Non-Executive Directors for chairing a Committee or for the role of Senior Independent Director will increase to £13,000 per annum.

Imelda Walsh Chair of the Remuneration Committee

21 November 2018

a. The Directors use a number of alternative performance measures (APMs) that are considered critical to aid the understanding of the Group's performance. Key measures are explained on pages 148 to 150 of this report.