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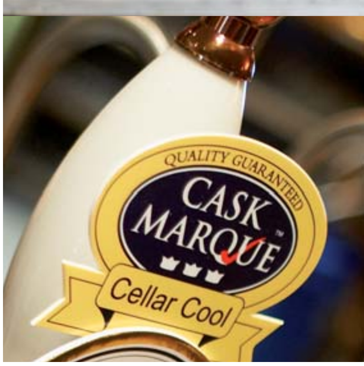
Mitchells & Butlers

Annual report and accounts 2010



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Excellent progress has been made against our strategic goal to turn Mitchells & Butlers into a food-led business.

For more information go to www.mbplc.com

Harvester
Family-friendly restaurants serving freshly prepared grills, spit-roasts and fish dishes and the famous salad cart included with every meal

Mitchells & Butlers has delivered a good set of results in challenging economic conditions with earnings per share up 26%. Excellent progress has been made against our strategic goal to turn Mitchells & Butlers into a food-led business by concentrating our industry leading brands on the informal eating-out market. The Company now has a strong balance sheet which, coupled with our brands and resilient trading platform, underpins our confidence in the future.

Financial highlights

Revenue up 1.1%
(£m)

FY 2010	1,980
FY 2009	1,958

Profit before tax[1,2] up 26.1%
(£m)

FY 2010	169
FY 2009	134

EBITDA[1] up 4.9%
(£m)

FY 2010	449
FY 2009	428

Adjusted earnings per share[3] up 25.8%
(p)

FY 2010	29.7
FY 2009	23.6

Operating profit[1] up 7.3%
(£m)

FY 2010	322
FY 2009	300

1 EBITDA, operating profit and profit before tax are all stated before exceptional items and other adjustments
2 After exceptional items and other adjustments, the loss before tax was £127m (FY 2009 £10m)
3 Adjusted earnings per share is stated as profit after tax before exceptional items and other adjustments, divided by the weighted average number of ordinary shares in issue

Business highlights

Company

Operating profit **up 7.3%** to **£322m**

Profit before tax **up 26.1%** to **£169m**

Net cash inflow of **£303m** in the year

Retained Estate*

Like-for-like sales **up 2.8%** in the year*

Like-for-like food and drink sales **up 4.7%** and **1.4%** respectively*

Operating profit of **£285m up 14%** with margin **up 1.9 percentage points** to **17.0%***

Retained Estate*

Like-for-like sales **up 3.7%** in first 8 weeks of new financial year*

Like-for-like food sales **up 6.9%** in first 8 weeks*

* Retained Estate reflects the ongoing business and is stated after exceptional items and other adjustments. This excludes the major disposals of 333 non-core pubs (completed in FY 2011), lodges, Hollywood Bowl and a £4m non-recurring onerous lease provision

Overview
Operating and financial review
Governance
Financial statements
Shareholder information

Chairman's statement

This is my first Chairman's statement. My appointment arose after a very difficult period for the Company. I hope as shareholders review the progress made in reshaping the portfolio and in sharpening performance in the last year that they will be reassured we are now heading in the right direction.

John Lovering
Chairman

The full focus is now on the business today and not on history. Our recent performance, our ability to recruit and retain talent and the heartening investor reaction suggests this is starting to pay off.

The prospects and financial standing of your business have been transformed in 2010. We now have a Company with an agreed strategy, with energised management and a strong business model, and a substantial cash balance of almost £300m in the bank. Our net debt is now down to nearly 50% of our property valuation and is around five times EBITDA.

Our trading performance has been very gratifying. EBITDA was £449m, up 4.9%, and our operating profit was £322m, up 7.3%. We have moved operating margins up by one percentage point and grown adjusted earnings per share by 26%. We have shown that even in difficult economic times, consumers want top quality products offering great value not just low prices. Customer satisfaction and market share are at high and improving levels. Mitchells & Butlers is regaining its position as the most admired operator of licensed catering outlets in the United Kingdom.

We have set a new direction for Mitchells & Butlers. More importantly, we have taken strides to deliver the first phase of our strategy. We have changed the philosophy and style of the business. We are optimising our brands not our estate. We have therefore disposed of over £550m of assets which do not have the opportunity to grow food sales substantially.

We have dramatically reduced the number of brands. We have focused resources on our core high performing brands, such as Harvester, Toby and Sizzling Pub Co., and are building our high potential brands, such as Miller & Carter, Browns and All Bar One. In addition, we are evolving our brands and menus incorporating our well conceived and delivered marketing campaigns. Food is now approaching 50% of our ongoing turnover.

We have reviewed and made significant changes to our operational structure. We are redesigning some of our buying and supply arrangements where we expect to save over £10m on an annualised basis. Our commercial team have re-examined our £1bn non-labour related costs and are finding ways to save money without impacting on our business. A similar exercise is under way to ensure we get maximum value from our capital budget. We will save 15% on comparable projects in real terms in 2011.

We will ensure our people continue to have the tools to do the job. We have committed to renew our IT platform in the restaurants and pubs and will be investing up to £15m this year on new till software and other outlet based systems that will modernise the business for our employees and customers alike.

We recognise we are a property business and a retail business. Both must earn their keep and exceed market return goals. We now report that our ongoing portfolio merits an internal rent of £190m and that

Reshaped to capture eating-out growth
MAB pubs by type (note: UK managed pubs)

	Drinks-led total: 35%	Food-led total: 65%
Higher price	28%	31%
Lower price	7% (to be converted to our portfolio of brands)	34%

we made a post-rent EBITDA in the retained business of approximately £200m. This internal rent would be able to support an attractive yield and would imply a market valuation for the business well above our current share price.

We have addressed our pension schemes, reaching agreement with Trustees on the funding plans and made major changes to the pension's provision in the Company. This will minimise the uncertainty and cost of pensions and remove incentives for excellent performers to retire early.

We have introduced new incentives to align management and shareholder interests. We have changed our operational bonus plans to reward growth in profits not just the size of those profits.

We have a unified Boardroom that has managed our business in the interests of all shareholders. This has been supported by shareholders who understand clearly where we are heading.

We have rebuilt our Executive Committee. A new team has been assembled under our exceptionally experienced Chief Executive, Adam Fowle. The Finance Director, Property Director, Commercial Director, HR Director and Legal Director have been recruited. They will take the Company forward combining new blood with our proven operational Managing Directors and Marketing Director.

The workload on the Non-Executives in 2010 was very large and we are blessed with outstanding chairs of our Audit and Remuneration Committees in Simon Burke and Mike Balfour. We have built a Non-Executive group of quality and experience and will look to strengthen the team still further.

I would like to thank Sir Tim Lankester who is standing down at the AGM for his even handed and thoughtful contribution to our deliberations. Ron Robson has fulfilled the role of a representational Director with the best interests of the Company in mind at all times and Jeremy Blood has shown his depth of industry experience.

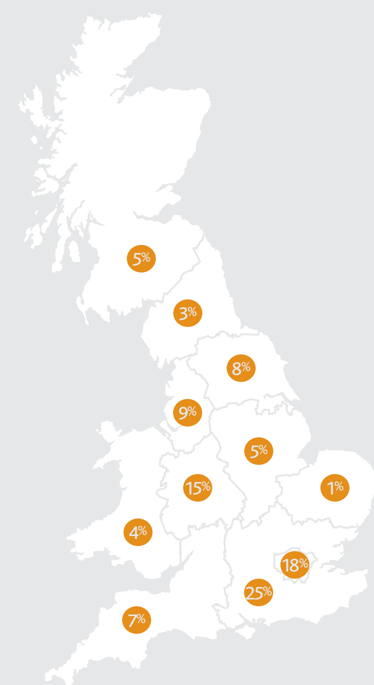
We have started the 2011 financial year well and like-for-like sales are up by nearly 4%. Like-for-like food sales are up by over 6% and volumes are ahead by over 1%.

We are cautious about the outlook for the economy and in particular consumer discretionary expenditure over the next year. We can see the threat of inflation and are pleased to have fixed price, long-term debt in place. We will work hard to stay high in consumers' priorities. We have the momentum generated by our actions in 2010 to be confident that we will be amongst the winners in the difficult environment of 2011 and beyond.

As indicated in May, the Board is committed to a resumption of dividend payments. The Board will monitor closely the level of operating cash flow generation during 2011 before taking a decision on the timing and quantum of the resumption of dividend payments.

I am proud of what has been achieved so far. This Company has over 38,000 dedicated talented employees on an ongoing basis. They have steadfastly focused on the business and our customers through a difficult few years. The Board sincerely thanks them for all their efforts and achievements. It is our people who deliver our product, create service and are the face of Mitchells & Butlers.

Geographic spread of our brands
FY 2010 sales by region



For more information go to
www.mbplc.com

brands people love

In this section

Sizzling Pub Co.
Friendly, comfortable local pubs offering regulars and families superb value sizzling dishes and a great choice of drinks

Chief Executive's review of the market and strategy

Adam Fowle
Chief Executive

Our vision

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

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

Strategic highlights

47%
Food sales mix up from 31% only five years ago (Retained Estate)

90%
All our brands have guest satisfaction levels above 90%

£180k
Operating profit per pub, one of the highest in the industry (Retained Estate)

£500m
Total cash proceeds of £500m received through non-core asset disposals

This review ('OFR') has been prepared in accordance with the requirements of the Companies Act 2006. It also incorporates much of the guidance set out in the Accounting Standards Board's Reporting Statement 'The Operating and Financial Review'. All numbers (except where stated) are before exceptional items.

Taste testing
The dishes on our menus are carefully created by our food development teams and assessed by our brand teams and consumer panels to ensure we serve the best plate of food to our customers day after day.

Customer feedback
Customer feedback enables us to continually evolve our brands and offers. This year over 650,000 of our customers completed online feedback forms. We also sent over 16 million email newsletters to subscribers and our brands communicated with over 260,000 Facebook fans.

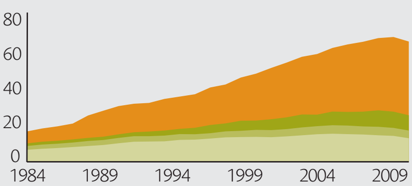
In FY 2010 the business has demonstrated a good performance with EPS up 26% in a period where the UK has experienced a subdued consumer environment including the January VAT rise.

We have also made excellent progress towards delivering the strategic plan, as announced in March 2010. The three most significant areas in which the Company has delivered have been:

- the rapid reshaping into a food-led business which was assisted by the disposal of 333 price-sensitive drinks-led pubs;
- the improvement in net operating margins to 16.3% up by one percentage point in the year; and
- the deleveraging of the balance sheet with net debt to EBITDA now at five times.

Trading in the first eight weeks of FY 2011 has continued strongly with like-for-like sales growth of 3.7%. This is an encouraging start to the year and underlines Mitchells & Butlers' operational skills and brand strength, and reinforces our confidence in the future prospects of the business.

Market consumer expenditure
(£bn)

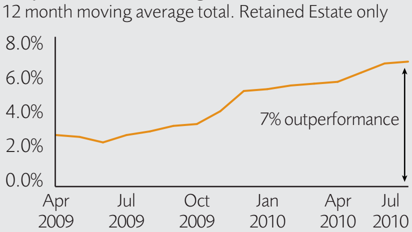


1984–2009 CAGR Actual	Nominal	Real
Eating-out	7.5%	2.6%
Drinking-out	3.7%	(0.9)%
Total	5.6%	0.9%

Eating-out Wine Spirits Beer

Source: ONS
NB. Eating-out market includes soft drinks

Outperformance of eating-out market
12 month moving average total. Retained Estate only



Source: Crest data, the NPD Group

The market

Mitchells & Butlers operates in the eating-out and drinking-out markets which have a combined size of some £68bn. The eating-out market has doubled in value over the past two decades to £42bn whilst the drinking-out market is currently worth some £26bn having declined over the last five years. The three main trends impacting these markets are:

1. The growing appeal of eating-out

Growing wealth, increasing discretionary spend and a number of social factors, particularly the increase in the proportion of working women, the growth in less-traditional family structures and the increase in single households have all contributed to the growth in the eating-out market. In the first half of this year the eating-out market declined, as it did in the 1991 recession, however, encouragingly, the market returned to its underlying long-term growth rates in the second half of the year.

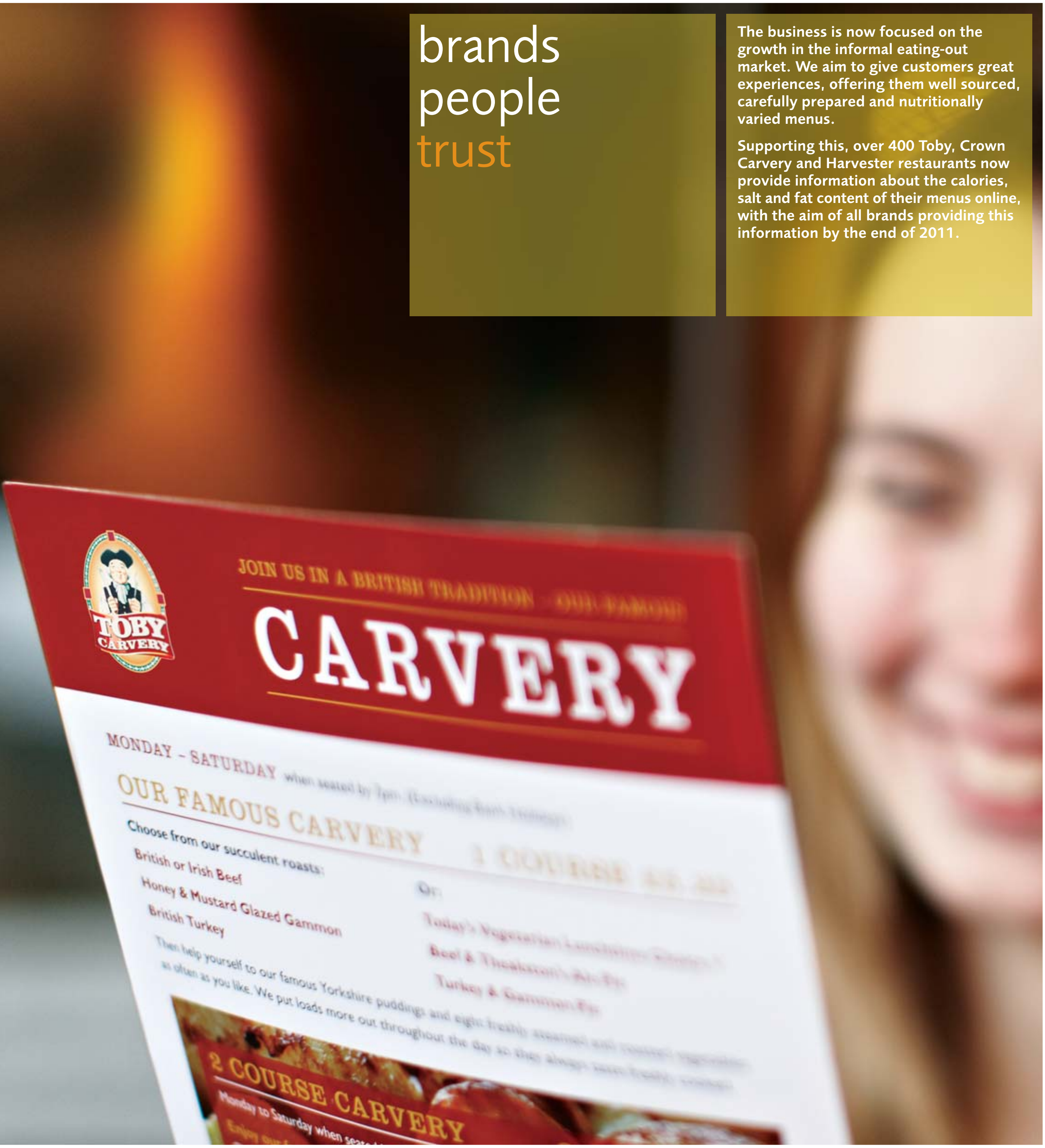
2. The resilience of drink sales with food

The eating-out occasion is always combined with a drink and therefore, as a result of the growing appeal of eating-out, associated drink sales have also seen good growth, particularly resulting in a greater proportion of wine and non-alcoholic drinks being sold.

brands people trust

The business is now focused on the growth in the informal eating-out market. We aim to give customers great experiences, offering them well sourced, carefully prepared and nutritionally varied menus.

Supporting this, over 400 Toby, Crown Carvery and Harvester restaurants now provide information about the calories, salt and fat content of their menus online, with the aim of all brands providing this information by the end of 2011.



Toby Carvery
Welcoming, accessible traditional pub restaurants with carvery experts creating Sunday every day for all guests, whatever the occasion




brands people enjoy

By understanding our customers and markets, we are able to offer the right experience and environments to ensure our brands remain the number one choice.

Our aim is to own and operate brands that have a significant site distribution throughout the country coupled with very high levels of customer satisfaction. During the year all our brands have achieved guest satisfaction levels of over 90%, which has driven continued strong like-for-like sales growth and an outperformance of the food market by over seven percentage points.

Crown Carveries
Top quality carvery meals at great prices within a friendly local pub serving good value drinks

Supply chain management
We believe that getting closer to our suppliers is important, therefore we build strong, collaborative partnerships where both parties can benefit and prosper from the relationship.

Marketing – TV advertisements
This year our Harvester, Sizzling Pub Co. and Toby Carvery brands each executed national television advertising campaigns, helping them reach millions of people across the UK. Crown Carveries also launched a national television advertising campaign in November 2010.

This trend has been supported by an increasing customer appetite for sharing plates and lighter snacks that mean that increasingly more social occasions combine drink and food. We estimate that around £10bn, or 40%, of the drinking-out market relates to drinks with food with a growth rate in line with the eating-out market.

3. The rapid decline of drinking-out not in conjunction with food

Over the last 20 years two out of three regular pub drinkers who visited the pub two or three times a week have altered their behaviour and now drink at home. This trend has been driven primarily by the low price of alcohol in the off-trade such that nearly two-thirds of all alcohol is purchased from supermarkets now. We estimate that the market for drinking-out without food has decreased by 4% per annum over the last five years.

Our strategy

Mitchells & Butlers has developed its business strategy to focus on the growth parts of the eating and drinking-out market. Our objective is to be the UK's preferred choice for informal eating and drinking-out with market leading brands that provide excellent customer service, range and quality across the key customer occasions and grow shareholder value. Our strategy to achieve this goal has five key elements:

Focusing the business on the growth in the eating-out market

Over the last decade our understanding of the UK market combined with our operational skills have helped us to take advantage of the increase in demand for eating-out and thereby to exploit profitably its attractive long-term trends. We are reshaping Mitchells & Butlers into a food-led business centred on core concepts with significant growth potential. To this end, we announced in August the sale of 333 drinks-led businesses, where there was limited potential to grow food sales, and have in addition sold our tenpin bowling business and the majority of our lodge interests. We have also completed over 50 conversions to our food-led brands with strong incremental returns. In FY 2010, this focus has generated a 4.7% growth in food sales and a food sales mix of 47% up from 31% only five years ago.

Developing national brands with high customer affinity and relevance

Our aim is to own and operate brands that have a significant site distribution throughout the country coupled with very high levels of customer satisfaction. Many of our brands already have good brand recognition and a substantial number of sites; however, we see potential to grow this much further. All our brands have satisfaction levels above 90% and this, together with our experience that has shown that new users of our brands are highly likely to return regularly, means that we are confident that we can significantly increase our restaurant numbers.

Generating high returns on investment through scale advantages

Our objective is to increase our scale advantages at the restaurant; brand; and corporate level to drive higher site profitability. Labour productivity is the key advantage of scale at the pub level with brand scale enhancing staff training and advertising benefits. Corporate scale enables significant synergies to be gained in menu development and system improvements. This is particularly the case in purchasing, where scale buying benefits in food and drink, distribution and capital expenditure can be significant. Each of

Retaining and training the best
To ensure we serve great tasting meals to customers time after time, many of our employees undertake training at our dedicated Kitchen Skills Academy in Watford or our Food Innovation Centres in Walsall and Hemel Hempstead.

Expertise
Around 1,000 of our pubs are Cask Marque accredited and we implement drinks quality training across all categories. In beer, we partner with Cask Marque, BII and Beer Academy to offer accredited training to our staff. Our bespoke Quality Educational Spirit and Soft Drinks Training scheme is accredited by the BII and we are developing similar training schemes for wine and hot drinks.

these factors is a key driver of improved returns and profitability per site with Mitchells & Butlers' EBIT per outlet of almost £180k being one of the highest in the industry. This high site profitability also enables acquisitions to be made where sites can be converted into our strong brands at high returns on investment. For example, in September 2010 we acquired 22 pub restaurants from Ha! Ha! for conversion mainly to All Bar One and Browns, where we expect to achieve EBITDA returns of around 25%.

Extending the skill base of operational excellence and consumer focus

We remain focused on attracting and training people with the skills and motivation to deliver exceptional customer service and to support the operational strategy of the business. At the pub level therefore a 13-week training programme is conducted with all new staff, as well as specific ongoing coaching to improve bar and kitchen staff service productivity and increase staff product knowledge. In addition in support of our food growth strategy, our staff members have undertaken 3,100 NVQs during the year, predominantly related to the training of new chefs. The results of our focus on people are impressive with retail management turnover down 4% and a 2% improvement in overall guest satisfaction, food and drink quality and service speed, as measured by our customers.

Continuing the sound financial base with a flexible approach to property ownership

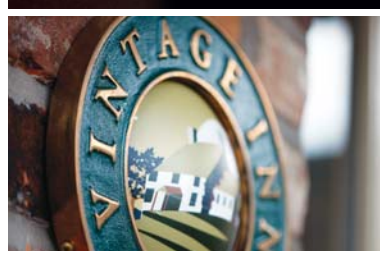
The Company has in place an attractive long-term debt financing at fixed interest rates that appropriately matches the stable, long-term cash generative nature of the business. The Board is comfortable with a net debt to EBITDA ratio of around five times that gives the business ample headroom and opportunity to develop and grow the Company in line with its strategic objectives. This long-term debt financing is backed by Mitchells & Butlers' £4bn asset base. Moving forwards we will have a flexible approach to property ownership seeking both freehold, and an increasing amount of leasehold opportunities as they arise.

Outlook

The outlook for consumer spending remains uncertain in light of Government spending cuts and the VAT increase in January. However, the strength of Mitchells & Butlers' brands, the effectiveness of its marketing platform, its operational capabilities and strong capex returns underpin the Board's confidence in the Company's prospects.

Conclusion

It has been a good year. We have made excellent progress against a clear but demanding strategy. Mitchells & Butlers continues to trade very strongly even though the markets we operate in remain subdued. Our balance sheet is robust and, as a consequence, the business is very well positioned for future growth.



brands people remember

We ensure everything we do is performed to the highest possible standard, resulting in a level of service that creates a memorable experience.

Our people are the critical element in the delivery of this vision, therefore we have trained and recruited over 14,000 under 21s in the year and in support of our food growth strategy our staff members have undertaken 3,100 NVQs, predominantly related to the training of new chefs. The results of this focus are impressive with improvements in food and drink quality and service speed, as measured by our customers.

Vintage Inns
Traditional country inns with real character and cosy interiors providing a warm, relaxed atmosphere, excellent wines, cask-conditioned ales and good food

Corporate social responsibility

Good food
We have now published the calorific value of all menu items in Harvester, Toby Carvery and Crown Carveries online

Challenge 21

Last year, 1.1m customers who could not produce proof of their age were refused service

BEST BAR NONE

Over 70 of Mitchells & Butlers' pubs were presented with *Best Bar None* awards in 2010

Our responsibilities – highlights
Some of our corporate social responsibility highlights this year are summarised below:

- We have published online the calorific and nutritional information on all menu items for over 400 restaurants.
- Over 70 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.
- 1.1 million customers were refused service for appearing to be under 21 and being unable to produce acceptable identification to prove they were of legal drinking age, and 328,000 customers were refused service for being, or appearing to be, intoxicated.
- Over £350,000 was donated to worthy causes through corporate donations and fundraising by employees.
- We achieved a 15% reduction in relative carbon emissions and were awarded the *Carbon Trust Standard*.
- We are now recycling 38,000 tonnes of waste per year, representing the carbon equivalent of 36,500 family cars being taken off the road.

A more detailed account of Mitchells & Butlers' corporate social responsibility practices can be found in our separately published Corporate Social Responsibility Review 2010 at www.mbplc.com/csrreview

Recognising our responsibilities

As one of the leading companies in the UK eating and drinking-out market, with highly visible brands, Mitchells & Butlers understands the vital importance of maintaining high corporate social responsibility values. Every year, thousands of people enjoy visiting restaurants and pubs, safely, responsibly and without risking their health. As we serve our customers some 125 million meals and 435 million drinks each year in our restaurants and pubs, we recognise that we have an inherent duty under our licences to ensure the responsible operation of our premises for our guests, employees and the wider community. In addition, we also appreciate the importance of fostering and maintaining strong working relationships with suppliers, employees, neighbours and Government bodies. As a result, we seek to be at the forefront of good corporate practice in every area of our business.

Good food

We have a wide selection of dishes available on our menus. We work closely with our food suppliers to develop a range of menu items where we can improve the nutritional content and our food development teams consider how we can incorporate healthy cooking practices into our kitchens.

Mitchells & Butlers was one of the first pub companies to agree to publish information on the calorie content of dishes served in its pubs. This has enabled our guests to make their own choices about the food and drink they want to enjoy in our businesses. Over 400 Toby Carvery, Crown Carveries and Harvester restaurants now provide information about the calories, salt and fat content of their menu items online. The aim is that this information will be available for all brands by the end of 2011.

The Mitchells & Butlers' *Good Food Group* was set up in the year. The *Good Food Group* reports to the Executive Committee, which is responsible for ensuring that the purchasing and retailing of food is achieved in a responsible manner. It brings together the Company's key experts to discuss and agree the policies that cover the sourcing and purchasing of food ingredients, one of which is to source local or British produce where price and availability allow. We also ensure that our suppliers operate to highly regulated EU animal welfare standards, thereby helping to safeguard high standards in animal welfare, quality, food safety and, of course, price. This means we can provide the best possible value for money to our customers.

Serving alcohol responsibly

Our pubs operate in hundreds of communities across the UK, serving thousands of customers every day. Our Alcohol and Social Responsibility Policy has been in place since 2000 and aims to ensure that all of our licensed premises are operated responsibly, safely and within the parameters of the law, while providing an inclusive environment for the sensible, controlled consumption of alcohol.

Uniquely, the restaurant and pub environment ensures that not only the sale but also the consumption of alcohol is supervised, lowering the risk of alcohol misuse and overseeing its proper regulation. The integral obligation of our licences, linked with the Mitchells & Butlers' business code of conduct, means that our brands do not conduct irresponsible alcoholic promotions. For example, no promotions such as '2 for 1s', happy hours or 'pay £10 and drink all you can' are allowed. However, this is not the case in wider society, as shown by the off-trade pricing and promotions, where alcohol is sold cheaply, without any supervisory responsibility.

We are a major funder of Drinkaware, who aim to promote responsible drinking

Mitchells & Butlers was awarded the Carbon Trust Standard for reducing relative carbon emissions by 15.4%

The environment
Harry Morrison, General Manager of the Carbon Trust Standard (left) presents Mitchells & Butlers' Energy Manager, Richard Felgate with the award following relative savings of 15.4% on carbon emissions

Our pub managers are supporters of the national Pubwatch scheme

We believe that threatening the safety and well-being of staff, customers and the public in general is unacceptable, and that those guilty of creating disorder or committing other crimes should be dealt with using the full force of the law. Equally we believe that the authorities should deal severely with licensed premises that persistently break the law or encourage anti-social behaviour.

328,000

Number of customers who were refused service for appearing to be intoxicated

Under our Alcohol and Social Responsibility Policy, our staff are trained not to serve alcohol to customers who appear to be under 21 and cannot provide acceptable ID to prove they are over 18; last year, we refused service to over 1.1 million such customers. Neither do we serve alcohol to those who are, or appear to be, intoxicated; last year, 328,000 customers were refused service as they were deemed to have already had too much to drink. We consider the impact of our pricing and promotions policies carefully to ensure we offer no incentives or encouragement to drink to excess.

This highly responsible approach has resulted in over 70 of our businesses winning *Best Bar None* awards last year. *Best Bar None* is a national award scheme supported by the Home Office aimed at promoting the responsible management and operation of alcohol licensed premises.

In the year, Toby Carvery and O'Neill's included information about units of alcohol on their drinks menus and our other brands have committed to follow their lead in 2011. Units of alcohol are displayed on the labels of Mitchells & Butlers' own label wine range.

We are a major funder of Drinkaware, which aims to promote responsible drinking and find innovative ways to challenge the national drinking culture to help reduce alcohol misuse and minimise alcohol-related harm. The Drinkaware logo and the 'Why let good times go bad?' strapline is widely publicised on drinks menus and brand websites in Mitchells & Butlers.

The environment

Reducing energy consumption

Reducing energy consumption makes good sense; most importantly, it helps to tackle the effects of climate change whilst it also helps save money.

In early 2008 we created a dedicated energy team to establish a coherent company-wide approach to energy management. The team continues to motivate retail managers to focus on their energy consumption which resulted in us being awarded the *Carbon Trust Standard* in May 2010 – we were one of the first companies in our sector to have received it. This is an impressive achievement because we have increased the number of meals served significantly over the last three years but have reduced relative carbon emissions by 15.4% per meal.

Last year saw the launch of the FTSE Carbon Disclosure Project Carbon Strategy Index Series, which listed all FTSE 350 Index constituents, rated according to their carbon risk exposure and carbon management performance. On the Emissions Performance area, Mitchells & Butlers' score of 72.7% compared to a top sector score of 78.8%, a FTSE 350 Index average of 27% and a Top 40 average of 65%.

Mitchells & Butlers has over 30 live projects and trials under review and we plan to invest in excess of £10m in energy saving projects over the next three years.

Recycling progress

Our businesses generate over 100,000 tonnes of waste each year, reflecting our scale and market position, and we continue to make excellent progress in our efforts to recycle. We are now recycling 38,000 tonnes of waste following the roll out of much improved recycling services into 517 pubs. This is the carbon saving equivalent of 36,500 family cars being taken off the road and represents a 17,000 tonne recycling increase on FY 2009.

Food waste

We have diverted over 6,000 tonnes of food waste away from landfill, the carbon saving equivalent of taking 12,500 family cars off the road. Food waste is recycled using anaerobic digestion where microbiotic organisms turn biodegradable material (food waste) into bio-gas. This gas can be converted into electricity and the waste used as fertiliser.

Used cooking oil

Almost 3,000 tonnes of used cooking oil was collected last year (for recycling into bio-diesel) saving over 5,000 tonnes of carbon, equivalent to taking 24,000 family cars off the road.

Future targets

Based on our improved model of waste services, we aim to be diverting 80% of waste from landfill by the end of September 2011 across the whole estate. By simultaneously making best use of our three other waste streams – dry mixed recycling, glass and general waste – we intend to achieve zero waste to landfill by the end of 2013.

Corporate social responsibility continued

Mitchells & Butlers in the Heart of the Community

Working with local communities
Over 120 managers entered their pub into Mitchells & Butlers' Heart of the Community Awards 2010

Mitchells & Butlers' Heart of the Community Awards winner Sarah Jeffries, Cllr Pam Light and Ember Inns' retail business manager Colin Brown presenting Eileen Newman, Chairperson, First Step with a cheque for £10,000

Working with local communities

Mitchells & Butlers has always encouraged our businesses to get to know and understand the needs of their local communities and our *Heart of the Community Awards* in May 2010 recognised the extraordinary lengths that our managers and their teams will go to support local good causes.

Last year's overall winner, Sarah Jeffries from the Harrow Inn, in Hornchurch, Essex, took on a pub that had a reputation for anti-social behaviour. However, determined to get this business back on track, Sarah, supported by the police, became the founder member of the 'Safe & Sound Partnership' and The Harrow can now be justifiably proud of its new reputation as a welcoming and safe place to go.

Our pub managers are supporters of Pubwatch, a voluntary scheme operating in hundreds of communities across the UK. Its purpose is to promote a safe, secure and responsible social drinking environment in all licensed premises.

Charitable activities

At least £350,000 was donated to worthy causes during the year, through corporate donations and employee fundraising, although the total figure will be much higher if all the many events held across the Company where employees raised money for their preferred charities are included.

Of the total, around £74,000 was donated by Mitchells & Butlers to a host of national and local charities, including a £25,000 donation to our corporate charity partner Marie Curie Cancer Care. Our employees raised a further £34,000 for Marie Curie, bringing the total donation for the second year of our partnership to £59,000.

The remainder was raised through a host of fantastic brand-led fundraising activities, including:

- our Ember Inns' pub teams raised over £52,000 for Sport Relief during February and a further £60,000 for Against Breast Cancer in their fifth annual *Drink Pink* fundraising campaign in April;
- Harvester managers and teams raised another £50,000 for the Make-A-Wish Foundation® in August; and
- a group of just 13 Sizzling Pub Co. team members cycled 130 miles from Gourock to Leith over three days and raised an incredible £107,358 for Help for Heroes.

Support in Birmingham

Mitchells & Butlers, with its Birmingham heritage, is proud to work with a number of arts partners in the region and give something back to our local community. Our support includes sponsoring the world class performances of the Birmingham Royal Ballet, working with the Birmingham REP to encourage interest in Midlands' theatre and supporting the City of Birmingham Symphony Orchestra's *On the Road* series of community concerts.

Employees

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 for the retail estate; and
- communications forums or road shows held by function or brand several times a year, 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 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 a poster magazine called *It's Your Shout*.

We recently launched *What's the Big Idea?*, a Company-wide new initiative where employees are encouraged to submit their ideas for improving the business, environmentally, financially or otherwise, via our dedicated employee website launched earlier this year.

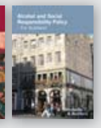
Entrepreneur and thirsty 'Dragon' Duncan Bannatyne launched Ember Inns' *Drink Pink* campaign which raised £60,000 for Against Breast Cancer

Mitchells & Butlers CSR publications

More detailed information on Mitchells & Butlers' CSR policies and initiatives can be accessed online at: www.mbplc.com/csr

The following publications are also available online:

Annual corporate social responsibility review: Mitchells & Butlers publishes a comprehensive corporate social responsibility review every December. This review covers key areas of importance to us as a Company, as well as to our customers, employees, local communities, suppliers and shareholders, namely: Food; Alcohol; Employees; Community; Environment; and Corporate Governance.



Alcohol and Social Responsibility policies
Our Alcohol and Social Responsibility policies for England & Wales and for Scotland detail our responsible operational, promotional and training guidelines.

This year saw the launch of e-learning and our retail teams have now completed over 46,000 interactive modules online, including food, health and fire safety, Challenge 21 and Intermediate Food Hygiene.

Employees with disabilities

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 directly 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.

Industry partnerships

It is essential we actively work with our key authorities and industry bodies in pursuit of our commitment to responsible retailing practices.

We are a long-standing member of the British Beer & Pub Association and have senior managers and retail business managers representing the Company at policy-making level.

Health and safety

We strive to ensure our pubs provide a safe environment for all our staff and customers. In addition, we:

- aim to protect the health of our employees through our health and safety management strategies;
- seek to minimise the risk of injury from Company activity; and
- ensure that sufficient resources and information are made available and suitable management systems are in place to address health and safety matters.

The Company requires pub managers to keep records of all safety checks for food, fire and health and safety. In addition, each year we run designated safety weeks aimed at reinforcing the Company's policies and making our pubs even safer places for our customers and staff. During these awareness weeks, staff receive appropriate refresher training and specific topics or areas of best practice are highlighted, for example, fire evacuation drills, hazard spotting exercises, food safety messages, Challenge 21 policy and robbery prevention training.

Corporate governance

Our Company is underpinned with a high level of corporate governance and recognises its role in creating a successful, sustainable and profitable business. We have implemented business conduct guidelines describing the standards of behaviour expected from those working for the Company.

The Company has adopted a Code of Ethics (the 'Code') to promote honest and ethical conduct throughout our business. The Code, which previously applied to all senior managers, was extended during 2010 to cover all corporate employees. The 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.

In addition, Mitchells & Butlers offers an independently administered confidential hotline, also known as a whistle-blowing 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 the Chief Executive's 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. More details can be found in the Risks and uncertainties section of this report.

Financial review

Mitchells & Butlers delivered good profit growth in the year with earnings per share up 26%. Like-for-like sales growth in our key food-led brands has been strong and we have once again outperformed the market. Careful cost control and efficiency savings have been achieved with gross and net margins both increased. Our capital investment programme has progressed well and the financial position of the business is strong.

Tim Jones
Finance Director

Group results
Total revenue of £1,980m was 1.1% higher than last year despite a slight dilution from the disposal of Lodges and Bowls made during the latter part of the year. Operating profit before exceptional items and other adjustments was £322m, up from £300m last year. The operating margin was 16.3%, up 1.0 percentage point against last year.

Like-for-like sales growth was 2.0% for the Company, with food and drink like-for-like sales up 4.5% and 0.5% respectively. By enhancing menu quality and improving the attractiveness of our offering, we have grown average like-for-like food spend per head by 2.1% excluding VAT whilst keeping overall same dish prices flat to last year. We continued to do this whilst also increasing the volume of main meals by 2.3%. Like-for-like drink prices were up 3.7% with volumes down 3.1%.

Other sales, including accommodation, bowling and machines, were down 2.2% on a like-for-like basis. Following the disposal of the lodges, bowls and non-core pubs, these items now represent only around 3% of the sales mix.

The gross margin percentage has improved by one percentage point over the year due to improvements in the food margin from the management of menu items, cost of sales and reduced wastage. Cash gross margin was up 2.4% against last year, with food cash gross margin up almost 9% and drink cash gross margin flat.

The Company experienced higher regulatory costs as a result of increases in the National Minimum Wage, statutory holiday pay entitlements, alcohol duty, landfill tax and business rates. In addition, there were inflationary costs in food, drinks and distribution and a one off £4m non-cash charge incurred relating to onerous leases. These increases were partially offset by a significant year-on-year energy cost decrease and efficiencies in menu management, food purchasing gains, reduced wastage, overhead reduction and employment efficiencies. Staff productivity increased by 2.0% in the year, however employment as a percentage of sales increased slightly to 24.5% of sales.

There was a year-on-year reduction of around £2m of operating profit relating to the disposal of bowls, lodges and pubs.

During the year SCPD, a property development company with a small residual land bank, made revenues of £7m (FY 2009 £1m) and a loss of £2m (FY 2009 £0m).

At the end of the year, the business comprised 1,823 managed pubs and 86 leased or franchised businesses. Following the year end, 333 non-core pubs were sold to Stonegate Pub Company Limited.

To enable a clearer picture of the ongoing Mitchells & Butlers business, a pro-forma income statement for the estate excluding the 333 pubs, the disposed bowls and lodges, SCPD and the £4m non-recurring lease charge is shown below:

	Reported		Retained	
	£m	Growth	£m	Growth
Revenue	1,980	1.1%	1,680	1.8%
EBITDA	449	4.9%	391	9.8%
EBIT	322	7.3%	285	14.5%
EBIT margin	16.3%	1.0 ppts	17.0%	1.9 ppts

Total revenue	Operating profit	Earnings per share
1.1% higher than last year	Up from £300m before exceptional items and other adjustments	25.8% increase before exceptional items and other adjustments
£1,980m	£322m	29.7p

Retained Estate

The successful disposal of the non-core assets enables the business to focus on the Retained Estate of nearly 1,600 sites which are well positioned within the attractive informal eating-out market. Food is now 47% of sales and we estimate that around two-thirds of total sales relate to a food occasion. Like-for-like sales were as follows:

	Retained Estate	
Like-for-like sales	Total 52 wks to 25 September	Current trading 8 wks to 20 November
Total	2.8%	3.7%
Food	4.7%	6.9%
Drink	1.4%	1.4%

Food like-for-like sales were up 4.7% with drink sales up 1.4%. Food volumes increased by 2.3% in the year. In addition, average food spend per head rose by 2.3% (excluding VAT) reflecting same dish prices in line with last year together with increasing spend from enhancing menu quality, selling additional courses and seeing a greater proportion of higher priced items being chosen. These improvements have been underpinned by our national advertising campaigns for Harvester, Toby and Sizzling Pub Co. which have been successfully attracting new customers into our sites. This sales result reflects an outperformance of the overall eating-out market by 7.2 percentage points with the market declining by 2.5% across the whole financial year however returning to positive growth in the second half.*

In the most recent eight weeks to 20 November like-for-like sales were up 3.7% continuing the underlying rate of growth experienced over the last six months.

The gross margin percentage was up 1.2 percentage points driven largely by improvements in food gross margins from menu management, purchasing gains and reduced wastage. Further efficiencies in labour and overhead reductions were supported by energy cost deflation to offset increasing regulatory expenses and other inflationary costs. As a result, EBITDA in the Retained Estate was £391m with operating profits of £285m and operating margins up 1.9 percentage points at 17.0%.

FY 2011 internal rent

In the strategy announcement in March we highlighted that a regime of internal rents would be initiated to provide greater transparency both externally around the performance of the operating and property functions, and internally, through the clear application of our differentiated hurdle rates for invested capital. In this respect, we engaged PricewaterhouseCoopers LLP to conduct a review of potential rent structures and to recommend the methodology of internal rents suitable for our business. There is no intention of legally separating the business into a property company and an operating company.

As a result, from the start of FY 2011 the business will charge an internal rent on each freehold and long leasehold site. The total internal rent charge will be about £190m representing around 40% of the aggregate pub level EBITDA of the freehold and long leasehold assets. Rent will rise each year to reflect the average of RPI and the relevant retail rent increases, in addition to any further capital invested. The methodology will be reviewed periodically to ensure it continues to reflect market conditions. An illustrative P&L is given below based on the performance of the Retained Estate in FY 2010:

	Operating £m	Property £m	Total £m
Turnover	1,680		1,680
EBITDAR	425		425
Rent	(224)	190	(34)
EBITDA	201	190	391

Capital expenditure and disposals

Total capital expenditure in the year was £138m, which included £110m to maintain the high levels of amenity in the restaurants and pubs as well as the continuing evolution and development of our brands and formats. The remaining £28m related to acquisitions and expansionary capital. During the year, we completed or unconditionally exchanged contracts on seven acquisitions and converted 54 sites to our expansion brands at an average conversion cost of around £350k.

In addition, the business announced the disposal of Hollywood Bowl and the majority of its lodge business. These disposals will deliver proceeds of at least £127m, with £93m received in the year. £37m was also realised through other individual disposals of drinks-led pubs.

After the year end, 333 non-core pubs were sold to Stonegate for £363m and the purchase of 22 Ha! Ha! Bar & Grill sites for £19.5m was completed for conversion mainly into All Bar One and Browns.

Exceptional items and other adjustments

Exceptional items are separately disclosed in order to aid the readers' understanding of the Group's underlying trading. They generally represent items which do not form part of the core operations of the Group, or which are sufficiently large to warrant separate disclosure in order to facilitate comparisons with earlier trading periods. This category also includes certain non-cash fair value adjustments, which are prone to volatility as they are driven by movements in market values, including the net pensions finance charge. The Board focuses on performance measures which exclude these items in order to aid comparisons of underlying performance year on year.

* Market source: NPD Crest

Total exceptional items and other adjustments reduced profits by £296m (£205m after tax) and included a £304m charge relating to the valuation of the property portfolio, a £15m gain on asset disposals and a £7m pensions finance charge.

Finance costs and revenue
Finance costs during the year were £153m before exceptional items and other adjustments, £14m lower than the same period last year reflecting the decreasing levels of average debt in the business. No finance revenue was received in the year, £1m lower than the same period last year.

Mitchells & Butlers' securitisation structure contains a number of bonds with varying maturities and interest rates. On two of these bonds (Class A1N: £200m and Class A3N: $418.75m swapped to £250m), the Company has the ability to repay the bonds at par on 15 December 2010, or leave them in place until their final maturity dates, in which case the interest rate will rise from LIBOR+0.18% to LIBOR+0.45%. A decision will be taken before the next note payment date, although given current debt market conditions it is expected to be beneficial for the Company to leave the bonds in place.

Taxation
The tax charge for the year was £48m before exceptional items. This is an effective rate of 28% of profit before tax which we expect to remain constant next year.

Earnings per share
Earnings per share were 29.7p before exceptional items and other adjustments, an increase of 25.8%. After exceptional losses there was a loss per share of 20.6p.

Balance sheet and cash flow
Net debt has reduced by £298m to £2.3bn at the year end. The ratio of net debt to EBITDA has fallen from 6.1 times at the start of the year to 5.1 times at year end. This excludes the proceeds from the disposal of the non-core pubs, which completed after year end. Currently, net debt is £2.0bn which, with the Retained Estate EBITDA of £391m, implies a net debt to EBITDA ratio of 5.0x.

A Red Book valuation of our estate was completed during the year, in conjunction with our property valuers, lowering the overall property value by £235m, reflected by an exceptional charge to the income statement of £304m and a balance sheet revaluation credit of £69m. Excluding the 333 non-core pubs, the Retained Estate was decreased in value by 4%, primarily as a result of reduced valuation multiples on our larger, high profitability sites where there are no comparable multiples in the market. The valuation reflects a prudent position at this point in the economic cycle bearing in mind the growth in profitability during the year.

The Group generated £457m of cash flow from operations before capital expenditure and after £32m of additional pension contributions. This includes working capital gains of £40m. The net capital outflow was £8m which comprised of £28m of expansionary capital, £110m of maintenance capital, £93m of disposal proceeds relating to the bowl and lodge disposals and £37m of other disposal proceeds.

Net interest paid of £147m was £13m lower than last year as a result of debt reduction. £3m was received from the exercise of share options and £6m was spent on share repurchases related to employee incentive plans. £12m was received in respect of a refund of VAT payments on machines income which, due to an appeal by HMRC, is provided for in full and therefore does not affect the income statement. Cash tax payments of £8m were made in the second half. In the current financial year, tax payments are expected to be around 15% of profit before tax. Net cash flow was £303m, compared to £141m last year.

The Group maintains an unsecured facility which expires in November 2011. At 25 September 2010 the value of the facility was £425m and drawings on it were £258m. The value of the facility drops to £338m after 31 December 2010.

At the year end, the Group had net debt of £2,302m, consisting of securitised net debt of £2,059m and unsecured net debt of £243m.

Dividends
As indicated in May, the Board is committed to a resumption of dividend payments. The Board will closely monitor the level of operating cash flow generation and capital investment opportunities for the business during 2011 before taking a decision on the timing and quantum of the resumption of dividend payments.

Treasury management
The financial risks faced by the Group are identified and managed by a central Treasury department. The activities of the Treasury function are carried out in accordance with Board approved policies and are subject to regular audit. The department does not operate as a profit centre.

Pensions
During the year, agreement was reached with the pension schemes' Trustees in respect of the past service funding shortfall arising from the triennial actuarial valuation. Using the Trustee's conservative valuation assumptions this resulted in a valuation deficit of £400m and, as a result, the Group has agreed to increase annual additional contributions from £24m to £40m. These payments form part of an agreed 10 year funding plan, although the funding levels and contribution requirements will be reviewed again at the next triennial valuation in 2013.

Following the year end, the Company and the pension schemes' Trustees have agreed that the defined benefit section of the pension plan will cease future accruals for active employees from 13 March 2011. At this date, employees will automatically be transferred to the defined contribution section of the plan.

The pre-tax pension deficit on the balance sheet, using IAS 19 valuation assumptions, increased to £199m (FY 2009 £130m). This is due to two main factors: first, a reduction in corporate bond yields and increasing life expectancy, despite strong investment returns; second, the irrecoverable element of the potential future pension surplus under IFRIC 14. Within this, the Group has agreed a funding target for which the present value exceeds the IAS 19 liability, resulting in a liability of £56m (along with an associated deferred tax asset of £43m) representing the tax charge that would be suffered on repayment of any surplus at current tax rates. Net of all deferred tax, the pension liability in the balance sheet is £117m.

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 40 in the Report on Directors' remuneration. During FY 2010, with the support of shareholders, a new long-term incentive plan was introduced which linked awards to the increase in the market capitalisation of the Company over a three-year performance period, subject to an additional performance condition related to EPS growth.

In FY 2010 Mitchells & Butlers implemented and monitored its performance against its strategy principally through three KPIs.

The performance in the year was as shown below.

KPI	KPI definitions	Progress in FY 2010
1. Same outlet like-for-like sales growth	The sales this year compared to the sales in the previous year of all managed pubs that were trading throughout the two years being compared, expressed as a percentage.	Mitchells & Butlers' operational and marketing plans have delivered robust like-for-like sales growth of 2.0% in FY 2010 compared with the prior year (1.6% in FY 2009).
2. EPS growth	Adjusted earnings per share for the year compared to last year, as reported in the financial statements, expressed as a percentage.	Sales growth combined with good operational control increased operating profits by 7.3% and EPS by 25.8% (down 12.5% and 23.9% respectively in FY 2009).
3. Incremental return on expansionary capital	Incremental return is the growth in annual pub operating profit expressed as a percentage of the associated capital investment for sites having received expansionary investment over the last two financial years. Pubs are included once they have been trading for three months. For pubs 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 pub or to materially change the customer offer. Expansionary capital represents investment over and above the maintenance investment cycle for a pub.	The performance in this area has been strong and remains well above our cost of capital. Pre-tax returns of 28% are being achieved on the expansionary capital projects carried out over the last two years (13% on the same basis at FY 2009).

Risks and uncertainties

This section highlights some of the risks which affect the Company. It is not intended to be an exhaustive and extensive analysis of all risks which may affect the Company, but those which have been identified and could have a material impact on Mitchells & Butlers' long-term performance and achievement of its strategy.

These risks have been grouped under the following headings: market; operational; regulatory and financial. Mitchells & Butlers adopts a proactive approach in this area with each member of the Executive Committee managing the specific risks associated with their areas of responsibility together with a dedicated Assurance team who report through the General Counsel to the Executive Committee and the Board. The process adopted to ensure that we understand, evaluate and mitigate the potential risks facing the business is shown opposite.

The Board has overall responsibility for managing the Company's risk. A sub-committee of the Executive (the Risk Committee) assists the Board and the Executive Committee in the review of risk management processes and in the consideration of major risks.

Its primary responsibilities are to:

- promote the management of risk throughout the organisation;
- review the operation of the risk management process;
- consider the Company's major and other significant risks and the adequacy of the mitigation actions;
- review and comment on the updates on risks prepared by Group Assurance prior to submission to the Executive and Audit Committees;
- review and comment on the findings of the work performed by relevant functions for the purposes of risk identification, mitigation and assurance; and
- review and comment on the Group Assurance audit plan prior to submission for approval to the Audit Committee.

The Board also receives regular updates on significant legislative changes or developments in corporate governance best practice. The Company's social, environmental and ethical disclosures are reviewed for accuracy through a combination of detailed verification by members of management responsible for the individual areas of corporate social responsibility and high level review by the members of the Board and Executive Committee.

1. Market-driven risks

Consumer expenditure

Changes in the general economic climate, such as those caused by the global 'credit crunch' and the resultant UK recession, can have a detrimental effect on consumer expenditure and therefore the Company's revenue, profitability and consequently the value of its assets. More localised economic factors can also have an impact, such as reduced tourist visits to London as a result of the strength of the pound.

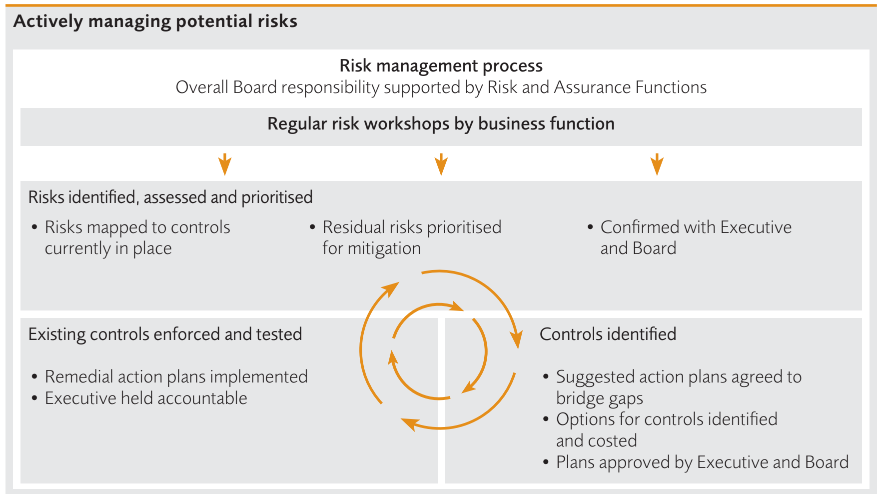
Mitchells & Butlers business is focused on the long-term potential of the eating-out market which has grown by 2.6% per year over the last 25 years. In addition Mitchells & Butlers owns pubs across the UK with a wide spectrum of customer offers targeted at different consumer groups and leisure occasions. This range provides flexibility to respond to changes in consumer expenditure either by altering the products sold and prices charged, or by substituting a more appropriate style of pub at a particular location.

Consumer taste

Changes in consumer taste, a new or improved competitor offering or unfavourable publicity may reduce the appeal of Mitchells & Butlers' brands to its customers, especially if the Company fails to anticipate, identify and respond adequately and promptly.

In light of this:

- Since the last Annual report Mitchells & Butlers has disposed of 333 drinks-led non-core pubs; Hollywood Bowl to AMF Bowling and the operations of 52 lodges to Travelodge to focus on the eating-out market. This was in response to the social and demographic changes that 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.
- On a regular basis, a brand strategy team meets involving marketers, operators and finance as part of a structured programme to develop new styles of pubs and continuously improve existing brands. This process is co-ordinated with a property review to ensure the appropriate capital investment is taking place to support our customers' changing needs. Supporting this process almost 700,000 pieces of customer feedback are collected annually through an online guest satisfaction survey. This feedback along with information on competitor activity is monitored and evaluated by a dedicated customer insight team to ensure that Mitchells & Butlers' brands are maintaining their relevance to their customers.



2. Operational risks

Service standards

Service standards are a critical component of Mitchells & Butlers' pubs' success with levels of service and retailing standards a key element in the consumers' choice of pub. Mitchells & Butlers operates ongoing staff training focusing on service quality and supports this through a variety of methods including guest satisfaction surveys.

People

Critical to Mitchells & Butlers' success is its ability to attract, retain, develop and motivate the best people with the right capabilities throughout the organisation. Remuneration packages are benchmarked to ensure that they remain competitive and a talent review process has been established to provide structured succession planning. Alongside this, a long-term incentive plan has been introduced during FY 2010 to align senior management and shareholder interests.

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 attitude survey is conducted annually to establish employee satisfaction and engagement and to compare it against other companies as well as previous annual surveys. In FY 2010 this survey was for the first time extended to include pub managers.

Pricing

The pricing of products is a critical management tool in maximising cash gross margin and therefore growing the net operating profits of the business. There is a risk that if the Company fails to price the products that it sells at the right level, volume declines will occur if the price is too high or insufficient margin will be achieved if the price is too low, thereby impacting on the profitability of the Company. As a result, retail pricing decisions are constantly monitored by a central pricing team which reviews and assesses the impact of pricing changes on profitability to ensure that any changes are effective.

Supplier dynamics

As a retailer Mitchells & Butlers is reliant on suppliers for all of its products. A major disruption to the supply chain may impact our ability to trade effectively, and fluctuations in food, drink and utility prices may significantly affect our cost base.

Food accounts for almost half of Mitchells & Butlers' sales and therefore food purchasing effectiveness is a key area of focus. The large number of ingredients and fragmented nature of food suppliers on the world commodity markets gives Mitchells & Butlers the opportunity to source food from a number of alternative suppliers. In addition to this, the Company continually reviews the cost of goods for each menu item in order to maximise value to the customer as well as profits for the Company. Growth in food volumes also help mitigate cost increases through reduced ingredient prices.

In drinks, Mitchells & Butlers has successfully renegotiated supplier contracts partially offsetting the effect of duty increases. Additionally, as the Company's legacy tied drinks arrangements have ended, Mitchells & Butlers has broadened the choice available to customers on favourable terms. Mitchells & Butlers is no longer contractually bound to source minimum purchase volumes from certain suppliers although there are some distribution obligations in place.

Mitchells & Butlers is a large commercial user of gas and electricity and is subject to fluctuations in utility costs (for example, gas and electricity costs rose sharply during 2008 due to global price increases). To reduce exposure to short-term fluctuations in energy prices, Mitchells & Butlers has a rolling programme of forward purchases. An energy awareness team reviews energy consumption and works with the business to find ways to promote further efficiencies.

The Company also regularly reviews the financial position of its major suppliers to assess the risk of suppliers ceasing to be able to trade.

Health and safety

Mitchells & Butlers is the largest on-trade caterer in the UK and there is therefore the potential that there might be a major health and safety failure leading to illness, injury or loss of life or significant damage to the Company's reputation. In light of this, the Company has in place rigorous health and safety training programmes and regular independent audits which are carried out to ensure that procedures are followed.

IT systems

Mitchells & Butlers is reliant on its IT systems to trade efficiently and to ensure that appropriate controls are in place. There is a potential for a failure of key IT systems for a sustained period which may restrict sales or reduce operational effectiveness. In addition to this, key management information may be lost through a major breach in IT security. Therefore the Company has a crisis management team which has in place a number of tested contingency plans and disaster recovery processes to mitigate the impact of such failures.

3. Regulatory risks

Mitchells & Butlers operates in a heavily regulated sector, where changes in regulation can have a significant impact. Some examples of the regulatory changes which have affected Mitchells & Butlers include:

National Minimum Wage and holiday pay

The National Minimum Wage was introduced 11 years ago and has increased by a compound annual growth rate of 5% over that period, materially above inflation. Also in April 2009 new rules increased the statutory holiday entitlement of staff from 24 to 28 days, which led to higher employment costs.

Mitchells & Butlers has successfully mitigated these statutory increases in employment costs through productivity improvements. These measures have allowed the Company broadly to maintain the ratio of employment costs at 24.5% of sales in FY 2010.

Licensing

New licensing laws became effective in England and Wales in November 2005 with similar changes being introduced in Scotland in September 2009. Licensing matters were transferred to local authorities and greater flexibility of opening hours was introduced to allow pub operators to apply to the local authority for permission to change opening hours subject to objections from local residents, the police and other relevant agencies. These groups have the right to ask the local authority for the premises' licence to be reviewed if they believe that the Government's licensing objectives are being compromised. The local authority now has the power to attach further conditions to the licence, reduce trading hours, call for a change in the pub management or ultimately suspend or revoke the licence.

The Policing and Crime Act was passed during FY 2010. The Act takes a two-tiered approach to further regulation of alcohol retailers with a small number of mandatory conditions for all alcohol retailers, alongside new discretionary powers for local authorities.

Mitchells & Butlers does not operate any 24 hour licences and invests heavily in the training of its pub managers and staff to ensure continued compliance with licensing laws and that its pubs are operated in a responsible manner.

Taxation

Mitchells & Butlers' profitability is affected by a number of different taxes. These include duty on alcoholic beverages, property rates, VAT, corporation tax and other business taxes. There is a risk that tax legislation changes may result in increased levels of tax and therefore reduced revenue, profitability or cash flow.

Mitchells & Butlers ensures it takes appropriate action to minimise the risks from legislation changes through a number of means including:

- active participation with industry organisations, such as the British Beer & Pub Association and the British Hospitality Association, ensuring that effective lobbying is carried out; and
- continual improvements in operating procedures to ensure any cost increases arising from such changes can be mitigated through productivity increases or other cost reductions.

The amount and timing of the Group's cash tax payments and receipts are dependent upon the interpretation of tax legislation. Alternative interpretations could affect tax returns which are submitted but not yet approved, material tax losses utilised in prior years or available for offset against future profits and claims for overpayments of tax in prior periods.

Following the disposal of a large number of assets during 2010 the Group has crystallised capital gains estimated at £56m. The Group intends to defer the tax on these gains by rolling them over against future capital expenditure. To fully defer the tax the Group will need to incur capital expenditure on freehold or long leasehold land and buildings of £105m by 30 September 2013. Should this not happen the Group will have to make a cash tax payment of £16m plus interest.

Should the Company be subject to a change of ownership as defined by the Income and Corporation Taxes Act 1988 (Sections 768, 769 and Schedule 28A) and be deemed to have undergone a significant change to its business, tax losses available for offset against future profits could be lost or the timing of cash tax credits could be impacted.

In mitigation of the above risks, Mitchells & Butlers monitors its tax position on an ongoing basis in conjunction with advice from tax specialists and discussions with HMRC.

4. Financial risks

Cash flows

Mitchells & Butlers has financing in place with sufficient headroom to support the operational strategy and maintain an efficient balance sheet. There is a risk however that due to a change in the economic climate or other significant financial impact that the business might either not be able to fulfil the terms of its financial obligations, or would not be able to refinance its unsecured medium-term facility prior to its maturity in November 2011.

In light of this risk, Mitchells & Butlers finance team conducts daily cash forecasting with periodic reviews at the Treasury Committee. In addition, the business undertakes regular forecasting of covenant compliance both inside and outside the securitisation and maintains frequent communication with the securitisation trustee and the ratings agencies. Were there to be a need to reduce cash costs, there are a number of levers the business could use including reducing operating costs and maintenance and growth capital expenditure.

Acquisitions and conversions

The Company invested £28m in expansionary capital in FY 2010 and, following the year end, acquired 22 outlets from Bay Restaurant Group for £19.5m. In addition, it raised circa £500m from disposals of non-core assets which it intends to reinvest by growing its scale in the informal eating-out market. These investments may not perform as anticipated.

Mitchells & Butlers has in place a rigorous project appraisal process in respect of investments, using both internal and external advisors and detailed modelling of profitability performance with post-investment performance of investments monitored at all levels of management. Further to this, investment performance is a Company key performance indicator against which it has a good track record, delivering 28% EBIT returns on the last two years' investments

Property valuation and security

There is a risk that a significant reduction in the Company's profitability or a material change to the basis of valuation of our property portfolio, upon which the Group's borrowing is secured, may adversely impact the Group's borrowing covenants or distributable reserves. This is mitigated by the headroom that we maintain against these risks, for example on the covenants within the securitisation there is a net worth threshold of £500m; and at the year end the headroom on this covenant was over £900m.

Pension funding

Mitchells & Butlers has two defined benefit pension schemes which give rise to various funding risks. There is a risk that the Company's funding of these schemes may be increased or accelerated to meet the expected liabilities within the scheme. The expected liabilities of the schemes are impacted by changes in various economic factors such as life expectancy, asset returns, bond yields and inflation expectations. The agreed triennial valuation carried out during the year resulted in a deficit of £400m.

Following the year end, Mitchells & Butlers pension risks were mitigated by the Company and Trustees' agreement that the defined benefit section of the pension plan would cease future accruals for active employees from 13 March 2011. At this date, employees will automatically be transferred to the defined contribution section of the Plan. The defined benefit scheme was closed to new entrants in 2002.

Mitchells & Butlers also maintains a close dialogue with the pension schemes' Trustees and three of the Trustees are appointed by the Company. As a result of the funding deficits in the schemes, in addition to the regular service contributions, the Company has made additional contributions of around £240m since demerger in 2003 in order to proactively reduce the deficit. As a result of the triennial valuation conducted during the year, the Group has agreed to increase annual additional contributions from £24m to £40m.

Material litigation

Mitchells & Butlers may be subject to litigation in the ordinary course of its operations. If such litigation resulted in fines, damages or reputational damage to Mitchells & Butlers, its business could be adversely affected.

Mitchells & Butlers has audited procedures in place to safeguard against material litigation, and has insurance in place to cover the more easily identifiable litigation risks.

Other financial risks

Other financial risks are shown in note 19 to the accounts.

Board of Directors and Executive Committee

Board of Directors

1. John Lovering, aged 61
Chairman[ad]
Appointed as Chairman of the Company in January 2010, John chairs the Nomination Committee. John is Chairman of Go Outdoors Limited, Managing Partner at Lovering & Lovering, a Partner at Echelon Investments LLP, a Director of Peacocks Group Ltd and a Director of A/S Solstra. John was Chairman of Debenhams Retail PLC until 31 March 2010. Other former positions include Chairman of Laurel Pub Company Limited, Fitness First Limited, Odeon Limited, Homebase Group Limited, Fired Earth Limited, Peacock Group, Somerfield Limited and Birthdays Group Limited. He also served as Finance Director of Sears plc, Chief Operating Officer of Tarmac plc and was a director of AGA Rangemaster Group PLC.

2. Adam Fowle, aged 51
Chief Executive[de]
Adam was appointed Chief Executive on 3 August 2009 having been Acting Chief Executive since 21 May 2009. He joined the Board as Managing Director Restaurants on 1 October 2007. Adam has more than 20 years of experience in licensed retailing having joined Mitchells & Butlers in 1984, holding a number of operational and strategic roles. Adam was also Retail Director at Sainsbury's for two years before rejoining Mitchells & Butlers in 2005 as Business Development Director.

3. Tim Jones, aged 47
Finance Director[e]
Appointed Finance Director in October 2010. Prior to joining the Company, Tim 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. Tim is a member of the Institute of Chartered Accountants in England and Wales and obtained an MA in Economics at Cambridge University.

4. Michael Balfour, aged 61
Non-Executive Director[abcd]
Appointed as a Non-Executive Director in January 2010, Michael Balfour chairs the Remuneration Committee. He is currently Chairman and founder of The Hideaways Club, which is now Europe's largest private residence owners club. Michael is Chairman of No Saints Ltd, Chairman of Pure Health and Fitness Sp ZOO in Poland and is a Chartered Accountant. He was the founder of Fitness First which he grew from one club in 1992 to the largest chain of health clubs in the World with 530 clubs in 21 countries. Fitness First was floated on the London Stock Exchange in 1996. Fitness First was acquired by private equity in 2005 for £835m. Michael stepped down as Chairman of Fitness First in April 2009. In 2008 Michael was awarded an OBE for services to business.

5. Jeremy Blood, aged 44
Non-Executive Director[abc]
Appointed as a Non-Executive Director in January 2010, Jeremy is also a Director of LT Pub Management PLC. Jeremy was Managing Director at Scottish & Newcastle ('S&N') from 2007 until May 2009 having been at S&N since 1988. He joined S&N initially as Brand Manager for Beer Marketing. Subsequently he held various roles at S&N such as Sales & Customer Service Director, Strategy & Marketing Director, Director of Corporate Affairs and Managing Director for S&N Pub Enterprises.

6. Simon Burke, aged 52
Non-Executive Director[abcd]
Appointed a Non-Executive in January 2010, Simon is Deputy Chairman, Senior Independent Director and Chairman of the Audit Committee. Simon is also Executive Chairman of Superquinn and a trustee of the National Gallery. Previous roles include Non-Executive Chairman at Majestic Wine PLC (2000–2010), Chairman at Total Home Entertainment (2003–2006), Executive Chairman at Hamleys Plc (2001–2003) and Chairman at Virgin Cinemas (1995–1999). Simon started his career as a Chartered Accountant for Binder Hamlyn in 1976.

7. Sir Tim Lankester, aged 68
Non-Executive Director[abcd]
Appointed a Non-Executive Director in May 2003, Tim is President of Corpus Christi College, Oxford. From 1973 to 1995 Tim was a member of the Civil Service rising to be Deputy Secretary of HM Treasury, Permanent Secretary, Overseas Development Administration, Foreign and Commonwealth Office and Permanent Secretary, Department for Education. Tim served as Private Secretary at 10 Downing Street and represented the UK on the boards of the World Bank and the IMF. Tim has held non-executive directorships of CU/CGU, the London Metal Exchange and Smith & Nephew. He is Chairman of the Council of the London School of Hygiene and Tropical Medicine and Chairman of the Board of Trustees of the Contemporary Dance Trust Limited.

8. Douglas E McMahon, aged 45 (not pictured)
Non-Executive Director[a]
Appointed as a Non-Executive Director on 15 October 2010, Douglas E McMahon is Managing Director of Tavistock Group and is a nominated shareholder representative of Piedmont Inc. (an investment vehicle of Joe Lewis). 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').

9. Ron Robson, aged 47 (not pictured)
Non-Executive Director[a]
Appointed as a Non-Executive Director in January 2010, Ron is currently Chief Financial Officer of Tamar Capital Partners, a property investment and management group owned by family interests of Joe Lewis and was previously Group Finance Director of Kenmore, a property investment and management group. From 2005 to 2008 he was Group Finance Director of The Belhaven Group plc, a listed brewing, drink distribution and pub retailing 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. Ron is a nominated shareholder representative of Piedmont Inc. (an investment vehicle of Joe Lewis).

Executive Committee

The Executive Committee consists of two Board Directors, Adam Fowle and Tim Jones, and six further members whose details are outlined below:

10. Robin Young, aged 45
Commercial Director[e]
Robin was appointed Commercial Director in June 2010. Prior to joining the Company, Robin ran his own business and worked for the Government as Chief Operating Officer at the nationalised arm of Bradford & Bingley. Prior to this Robin worked across the globe at an Executive level with Ford, Procter & Gamble, McDonald's Group, GlaxoSmithKline, HBOS and Citigroup in the Supply Chain, Technology, Change, Strategy, Purchasing, Sales & Marketing and General Management functions. Robin also spent time assigned to the charity HOPE (Health Opportunities for People Everywhere) where he worked on projects in Bosnia, Africa and Russia.

11. Adam Martin, aged 47
Marketing & Strategy Director[e]
Adam Martin was appointed Marketing & Strategy Director in 2009 having been Marketing Director since December 1999. He joined Bass PLC in 1996 as Strategic Planning Manager and moved to Bass Leisure Retail in 1997 as Director of Marketing. Previously, Adam was Vice President of Gemini Consulting and Brand Manager at Cadbury Limited.

12. Saudagar Singh, aged 50
HR, Service & Productivity Director[e]
Saudagar was appointed HR, Service and Productivity Director in May 2010. Prior to joining Mitchells & Butlers Saudagar was with RWE Npower where he was Retail HR Director from August 2000 and then Group HR Director from December 2003. Prior to this Saudagar was at Thorn Lighting where he was HR Director, initially with responsibility for the UK and later on also for the Company's European operations.

13. Roger Moxham, aged 46
Managing Director, Value[e]
Roger was appointed to the position of Managing Director Value on 21 September 2009 having been Acting Managing Director Locals, Metropolitan and High Street from May 2009. Prior to this Roger held Divisional Director roles for Locals and City Centre Pubs from January 2005 as well as a number of senior operational roles across the Company since joining Mitchells & Butlers in 1986.

14. Kevin Todd, aged 54
Managing Director, City & Country[e]
Kevin was appointed Managing Director City & Country on 21 September 2009 having been Acting Managing Director City Brasseries, Suburban and Country Pub Restaurants from May 2009. Previously Kevin was Divisional Director City Brasseries & Country Pub Restaurants from January 2005. Kevin rejoined the Company in September 2002 as Director & General Manager for our Restaurants businesses, having been a Managing Director with Volvo UK for over two years. Prior to this Kevin worked within Mitchells & Butlers for 13 years in a number of senior operational roles.

15. Amanda Coldrick, aged 45
Managing Director, Suburban[e]
Amanda was appointed to the position of Managing Director Suburban on 21 September 2009. Previously Amanda was Divisional Director Suburban Pub Restaurants from July 2008, Divisional Director London, Venues and High Street from January 2001 and Divisional Director Locals from October 2000. Amanda joined the Company in 1988 and has previously held senior positions in Public Relations, Risk and Compliance and Marketing with Mitchells & Butlers.

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

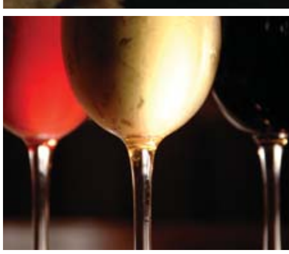
Ages listed are as at 22 November 2010

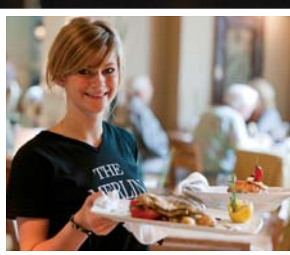
Governance

The Board recognises the importance of corporate governance in creating a sustainable business.

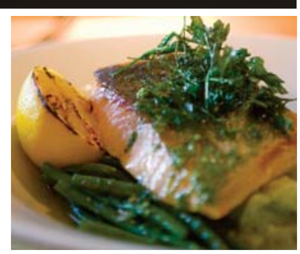
In this section:

For more information go to www.mbplc.com





Premium Country Dining Group
Modern country pub restaurants with great bars designed to offer guests high quality fresh food and drink in a sophisticated environment



Directors' report

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

For our latest financial information go to: www.mbplc.com/investors

The Directors present their report and the audited financial statements for the year ended 25 September 2010. This Directors' report should be read in conjunction with the Chairman's statement, the Overview and the Operating and financial review (the 'OFR') on pages 5 to 25, including the Chief Executive's review and the Financial review, the Corporate governance statement and the Audit Committee report (which are incorporated in this Directors' report by reference).

Details of the Group's policy on addressing risks are given in the OFR and details about financial instruments are shown in note 19 to the financial statements. Together these sections include information about the Group's business, its financial performance during the year, the main trends and factors likely to affect the future development and performance of the Group's business, its position at the year end and the principal risks and uncertainties associated with the Group's business. By their nature, the statements concerning the risks and uncertainties facing the Group in this Annual report involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual report and the Company undertakes no obligation to update these forward-looking statements. Associated key performance indicators for the Group's business are set out on page 19.

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 Pub Restaurants and managed pubs and, as at 25 September 2010, had an estate of 1,909 sites including 86 leased and franchised sites in the UK, and 43 Pub Restaurants in Germany. In March 2010 the Company announced the outcome of a strategic review, stating that it intended to rapidly reshape Mitchells & Butlers into a food-led business centred around core concepts which have significant growth potential and that it also planned to withdraw from the more price sensitive drinks-led businesses. To this end in August 2010, the Company announced the disposal of Hollywood Bowl and the majority of its lodge business. The Company also disposed of a further 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. Further detail regarding the disposals is provided on page 2 and in notes 16 and 33 to the financial statements.

Share capital

The Company's authorised and issued ordinary share capital as at 25 September 2010 comprised a single class of ordinary shares of which 408,953,036 shares were in issue and listed on the London Stock Exchange. As at 26 September 2009, the Company had 407,404,004 ordinary shares of 8 13/24p in issue. Details of movements in the issued share capital can be found in note 22 to the financial statements on page 92. 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 other than those which may from time to time be applicable under existing laws and regulations (for example under the Market Abuse Directive). At the year end, 429 shares were held in Treasury and the Company's employee share trusts held 3,416,120 shares.

Shareholders passed a resolution at the 2010 AGM to permit the Directors to undertake market purchases of up to 40,765,984 of the Company's shares. This authority will expire at the earlier of the 2011 AGM or 27 March 2011. No shares have been purchased by the Company during the year.

Shareholders passed a resolution at the 2010 AGM to permit the Directors to allot shares up to a nominal value of £11,606,969 and to allot further shares and other relevant securities only in connection with a rights issue up to a further nominal value of £11,606,969. This authority will expire at the earlier of the 2011 AGM or 27 March 2011. Since the AGM, until the end of the year, shares with a nominal value of £96,968 were allotted; 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 set out in the Remuneration report on page 53.

Final dividend

No final dividend will be paid in respect of the year ended 25 September 2010 (2009 nil). No interim dividend was paid during the year (2009 nil).

Interests in voting rights

As at the date of this report, the Company had been notified, under Disclosure and Transparency Rule 5, of the significant holdings of voting rights (3% or more) in its shares shown below:

Significant holdings of voting rights

Shareholder	Ordinary shares	% of capital*	Nature of holding
Piedmont Inc.	93,047,373	22.75%	Direct interest
Elpida Group Ltd	73,750,441	18.03%	Direct interest
Standard Life Investments	19,710,009	4.82%	Direct and indirect interest
Axa S.A.	19,221,774	4.70%	Direct and indirect interest
Legal & General	16,042,776	3.92%	Direct interest

* Using the total voting rights figure announced to the London Stock Exchange on 29 October 2010 of 409,020,946

Directors

Details of the Directors as at 22 November 2010 and their biographies are shown on pages 24 and 25. 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 31. There were no payments made during the year as compensation for loss of office.

Directors are appointed in accordance with the Articles of Association which stipulate that any Director appointed during the year must stand for reappointment at the next Annual General Meeting ('AGM'). Directors who wish to continue in their role must submit themselves for re-election at an AGM at least every three years. 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 the requirements of the Company's Articles of Association in this regard, the Company in the interests of good corporate governance and in anticipation of provision B.7.1 of the UK Corporate Governance Code which will apply for financial periods commencing on or after 29 June 2010, each of the Directors wishing to continue will retire voluntarily and submit themselves for re-election by shareholders. In addition, given the unusual circumstances surrounding the election of the new Board Directors at the 2010 AGM, these four new Directors have confirmed that they will stand down at the close of the 2011 AGM in the event that they do not command support from a majority of shareholders excluding Piedmont Inc.

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 auditors.

Conflicts of interest

The Company's Articles of Association permit the Board to consider and, if it sees fit, to 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 is required to disclose any contractual or other arrangements which it considers are essential to its business. The Company has a number of contractual agreements with suppliers in support of its business activities. However, 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

The following significant agreements contain provisions entitling the counterparties to exercise termination or other rights in the event of a change of control of the Company:

- an unsecured term and revolving facilities agreement as described more fully on page 85; and
- three interest rate swap agreements with a total initial notional amount of £150m as described more fully on page 88.

Under the terms of each of these agreements a 'change of control' occurs if any person, or Group of persons acting in concert, gains control of the Company.

There are no provisions in the Directors' service agreements providing for compensation for loss of office or employment occurring because of a takeover. The service contract of one senior employee (who is not a Director of the Company) contains a provision setting out specific entitlements (in lieu of damages calculated by reference to his 12 month notice period) if his employment is terminated by the Company within 12 months following a change of control. These entitlements comprise a payment equal to one year's gross salary and one year's bonus based on the average bonus paid to him in the three years prior to termination, and a credit of 12 months' pensionable service. It is no longer Company policy to offer such terms in relation to service contracts or employee contracts.

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 in the table below.

Employees
The Group employed an average of 44,600 people in 2010 (2009 42,023). Details of the Group's employment policies are shown on pages 12 to 15 in the Corporate social responsibility section of the OFR and a more detailed account can be found in our separately published Corporate Social Responsibility Review 2010 at www.mbplc.com/csrreview

Employee engagement
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 three other plans on a selective basis, which are the Performance Restricted Share Plan, the Short-Term Deferred Incentive Plan and the Long-Term Incentive Plan which was approved by shareholders at a general meeting of the Company held on 29 July 2010. Further details on the selective plans are included within the Remuneration report on pages 40 to 53.

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. To this end 2,032,000 shares in the Company were purchased by the employee benefit trust during FY 2010.

At 25 September 2010, the position under the '5% in 10 years' limit for discretionary plans was that shares equivalent to 2.94% of the ordinary share capital had been allocated and under the '10% in 10 years' limit for all share plans the overall position was that shares equivalent to 3.73% of the ordinary share capital had been allocated.

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 40 days (2009 38 days).

Charitable donations and charitable activity
The Company continues to support community initiatives and charitable causes, full details of which are given on page 14 in the Corporate social responsibility section of the OFR.

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

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 2011 AGM to make limited donations or incur limited political expenditure, although it has no intention of using the authority.

Going concern
The financial statements which appear on pages 55 to 110 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.

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) and the medium-term funding facility drawn by Mitchells & Butlers Retail (No. 2) Ltd. Further information regarding these arrangements is included in note 18. The terms of both the securitisation and the medium-term facility 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. Committed facilities outside of the securitisation are sized to ensure that the Group can meet its medium-term anticipated cash flow requirements.

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 to be held at 11am on Thursday 27 January 2011 is contained in a circular sent to shareholders with this report. This meeting will be held at the International Convention Centre in Birmingham. At the meeting, resolutions will be proposed to authorise the Directors to issue shares without applying statutory pre-emption rights and to authorise the Company to make market purchases of its own shares. Following the implementation of the final provisions of the Companies Act 2006 and the Companies (Shareholders' Rights) Regulations 2009, resolutions are also proposed to authorise the calling of general meetings (other than annual general meetings) on 14 clear days' notice and to make certain amendments to the Company's Articles of Association to bring them in line with the Companies Act 2006. Full details of all resolutions are provided in the shareholder circular. If you would like to register any questions you may have in advance of the AGM you can do so at www.mbplc.com/agm2011qs.com

Auditors
Ernst & Young LLP have expressed their willingness to continue in office as auditors of the Company and their reappointment will be put to shareholders at the AGM.

By order of the Board

Ian Powell
Company Secretary
Mitchells & Butlers plc
Company registration number 4551498
22 November 2010

Directors' responsibility statement
The Directors are responsible for preparing the Annual report, the Remuneration report and the financial statements (Group and Company) in accordance with applicable UK laws and regulations. UK company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU') and applicable UK law. Further, they have elected to prepare the Company financial statements in accordance with UK accounting standards ('UK GAAP') and applicable UK law.

In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU, subject to any material departures disclosed and explained in the financial statements; and
- for the Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Annual report and financial statements comply with the Companies Act 2006 and, with regard to the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for the system of internal control for safeguarding the assets of the Company and the Group and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

A copy of the financial statements of the Company is posted on the Company's website www.mbplc.com. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the website. Information published on the Company's website is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, the names and functions of whom are set out on pages 24 and 25, confirms that to the best of his knowledge they have complied with the above requirements in preparing the financial statements in accordance with applicable accounting standards and that the financial statements give a true and fair view of the assets, liabilities and financial position and profit of the Group and the Company and of the Group's income statement for that period. In addition each of the Directors confirms that the management report represented by the Directors' report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Disclosure of information to auditors
Having made the requisite enquiries, so far as the Directors are aware, there is no relevant audit information (as defined by Section 418(2) of the Companies Act 2006) of which the Company's auditors are 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 auditors are aware of that information.

By order of the Board

Ian Powell
Company Secretary
22 November 2010

Corporate governance statement

Corporate governance statement

The Board is responsible for ensuring compliance with the Combined Code. 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. Details are set out below of the Company's corporate governance procedures and application of the principles of the Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2008 (the 'Combined Code') which is available online at www.frc.org.uk

In May 2010 the Financial Reporting Council issued a new edition of the Combined Code called the UK Corporate Governance Code which applies to financial years beginning on or after 29 June 2010.

The Board has reviewed the content of the UK Corporate Governance Code and will report on compliance with the new code as part of the FY 2011 Corporate Governance Statement. The Board has noted provision B.7.1 of the UK Corporate Governance Code in respect of directors being subject to annual election by shareholders and in anticipation of this provision which will apply for financial periods commencing on or after 29 June 2010, each Director wishing to continue will retire voluntarily and submit themselves for re-election by the shareholders at the 2011 Annual General Meeting.

The Board considers that the Company has complied throughout the year ended 25 September 2010 with all the provisions of the Combined Code except, from time to time only, those in respect of Board composition and balance (A.3 and A.3.2), certain Board appointments as detailed below (A.4.6), the Senior Independent Director (A.3.3), constitution of the Nomination Committee (A.4.1), constitution of the Remuneration Committee (B.2.1) and constitution of the Audit Committee (C.3.1) as described below. The information required by Disclosure and Transparency Rule ('DTR') 7.1 is set out in the Audit Committee report on pages 38 to 39 and 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 27 to 30.

Board composition

A table listing all changes to the Board of Directors during the year is on page 33.

At the start of FY 2010 the Board comprised: the Non-Executive Chairman, Drummond Hall; two Executive Directors, Adam Fowle and Jeremy Townsend; and six Non-Executive Directors, Denis Jackson, Simon Laffin, Sir Tim Lankester, Ray MacSharry, Sara Weller and Richard McGuire. Richard McGuire, because of his association with Piedmont Inc., the Company's largest shareholder, was determined a non-independent Non-Executive Director.

During the year various changes were made to the composition of the Board. Tony Bates was appointed as an independent Non-Executive Director on 13 October 2009. Tony was recruited with the assistance of an external agency. Shortly thereafter Piedmont Inc. exercised its right, pursuant to a deed dated 15 July 2009, (the 'Appointment Deed'), to appoint an additional representative Director, Douglas McMahon, who was appointed to the Board on 18 November 2009. As this appointment was pursuant to a request from the Company's major shareholder an external agency was not engaged. Douglas McMahon's appointment as a non-independent Non-Executive Director was recommended to the Board by the Nomination Committee.

Drummond Hall stepped down as Chairman on 29 November 2009 but continued to serve as a Non-Executive Director until 28 January 2010. Simon Laffin was appointed Chairman on 30 November 2009 at which point he relinquished his role as Senior Independent Director.

On 1 December 2009 Richard McGuire ceased to be a Director of the Company. On 2 December 2009 Denis Jackson, Raymond MacSharry and Douglas McMahon ceased to be Directors of the Company. Letters setting out the background as to why these former Directors were removed from the Board were sent to shareholders in December 2009 and January 2010; the letters are available on the Company's website www.mbplc.com

In December 2009 a nominee acting on behalf of Piedmont Inc. proposed resolutions to be added to the agenda for the Company's Annual General Meeting ('AGM') held in January 2010 to appoint four new Directors to the Board and remove Drummond Hall as a Director. Piedmont Inc. also exercised its right, pursuant to the Appointment Deed, to appoint Ronald Robson as its non-independent representative Director. Ron Robson was appointed as a Director on 22 January 2010; as his appointment was pursuant to the Appointment Deed an external agency was not engaged.

Sara Weller, an independent Non-Executive Director, retired following the Company's AGM held on 28 January 2010. Further to the vote at that AGM, Tony Bates, Drummond Hall and Simon Laffin ceased to be Directors. Michael Balfour, Jeremy Blood, Simon Burke and John Lovering were appointed as Directors and Ron Robson was re-elected as a Director. No external agency was engaged in relation to the appointments proposed by Piedmont Inc. Immediately after the AGM John Lovering was appointed as Chairman of the Company. On 2 February 2010 Simon Burke was appointed Deputy Chairman, Senior Independent Director and Audit Committee chairman.

Following a review by Freshfields Bruckhaus Deringer LLP of the relevant circumstances surrounding the breakdown in relationships between the Directors of the Company in late 2009, on 13 May 2010 the Company announced that the Directors removed from the Board in December 2009 had acted in what they believed to be the best interests of the Company. The Board further stated that nothing had come to their attention that would prevent any of the former Directors from serving as credible and capable independent directors of listed companies, including Mitchells & Butlers plc, in the future. All parties agreed that the Company's and shareholders' interests are best served by supporting the current Board structure and its strategy.

On 31 August 2010 Jeremy Townsend resigned as Finance Director.

Douglas McMahon was appointed as a second representative Non-Executive Director for Piedmont Inc. on 15 October 2010; as his appointment was pursuant to the Appointment Deed an external agency was not engaged.

Tim Jones was appointed Finance Director on 18 October 2010. Tim was recruited with the assistance of an external agency.

As at 22 November 2010 the Board consists of: the Non-Executive Chairman, John Lovering, who was independent on appointment; two Executive Directors, Adam Fowle and Tim Jones; and six Non-Executive Directors, Michael Balfour, Jeremy Blood, Simon Burke, Sir Tim Lankester, Douglas McMahon and Ron Robson. Michael Balfour, Jeremy Blood, Simon Burke and Sir Tim Lankester are determined to be independent Non-Executive Directors.

Given the unusual circumstances surrounding the election of the new Board Directors at the 2010 AGM, John Lovering, Michael Balfour, Jeremy Blood and Simon Burke have confirmed that they will submit themselves for re-election at the 2011 AGM and will stand down in the event that they do not command support from a majority of shareholders excluding Piedmont Inc.

Due to the events which took place in late 2009 and early 2010, prior to 28 January 2010, the Board did not necessarily comply with: sections A.3 or A.3.2 of the Combined Code in relation to Board balance and at least half of the Board comprising independent Non-Executive Directors; section B.2.1 in relation to establishing a Remuneration Committee of at least three independent Non-Executive Directors; and, C.3.1 in relation to establishing an Audit Committee of at least three members, all of whom should be independent Non-Executive Directors.

Board and committee structure

To support the principles of good corporate governance, 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 therefore 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 Board has established a schedule of matters which are reserved for its attention which are published on the Company's website.

The Board has adopted objective written criteria for the appointment of Directors and the roles of the Chairman, Chief Executive and Non-Executive Directors have been defined in writing.

The Executive Directors may be permitted to accept one external non-executive director appointment with the Company'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 Combined Code and the Companies Act 2006 as well as other relevant legislation.

During FY 2010 there were nine scheduled Board meetings including a two day off-site meeting which considered the Group's strategy and a further 18 Board meetings which were called at short notice. The table opposite shows attendance levels at the scheduled 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 nine Board meetings currently planned for FY 2011.

Attendance levels at scheduled Board and Committee meetings

	Board scheduled	Audit Committee	Remuneration Committee	Nomination Committee
Current Directors who served during the year				
Michael Balfour	5 (6)	2 (2)	2 (3)	1 (1)
Jeremy Blood	6 (6)	2 (2)	3 (3)	n/a
Simon Burke	6 (6)	2 (2)	3 (3)	1 (1)
Adam Fowle	9 (9)	n/a	n/a	3 (3)
Sir Tim Lankester	8 (9)	4 (5)	5 (5)	3 (3)
John Lovering	6 (6)	n/a	n/a	1 (1)
Ronald Robson	6 (6)	n/a	n/a	n/a
Former Directors who served during the year				
Antony Bates	3 (3)	2 (2)	1 (1)	1 (1)
Douglas McMahon*	0 (0)	n/a	n/a	n/a
Drummond Hall	3 (3)	n/a	2 (2)	2 (2)
Denis Jackson	2 (2)	2 (2)	1 (1)	n/a
Simon Laffin	2 (3)	2 (2)	2 (2)	1 (2)
Raymond MacSharry	2 (2)	2 (2)	1 (1)	n/a
Richard McGuire	2 (2)	n/a	n/a	1 (1)
Jeremy Townsend	9 (9)	n/a	n/a	n/a
Sara Weller	3 (3)	2 (2)	2 (2)	2 (2)

* Relates to Douglas McMahon's initial appointment to the Board between 19 November and 1 December 2009

Directors

The following were Directors of the Company during the year:

		Date appointed	Date left
Sara Weller	Independent Non-Executive Director	15/04/03	28/01/10
Sir Tim Lankester	Independent Non-Executive Director	16/05/03	
Drummond Hall	Chairman (from 20/06/08 to 29/11/09)	30/07/04	28/01/10
Adam Fowle	Chief Executive (from 03/08/09)	01/10/07	
Jeremy Townsend	Finance Director	31/01/08	31/08/10
Simon Laffin	Chairman (30/11/09 to 28/01/10) Senior Independent Director (01/06/09 to 29/11/09)	29/01/09	28/01/10
Richard McGuire	Non-independent Non-Executive Director	16/07/09	01/12/09
Denis Jackson*	Non-Executive Director	28/08/09	02/12/09
Ray MacSharry*	Non-Executive Director	28/08/09	02/12/09
Tony Bates	Independent Non-Executive Director	13/10/09	28/01/10
Douglas McMahon	Non-independent Non-Executive Director	18/11/09	02/12/09
Ron Robson	Non-independent Non-Executive Director	22/01/10	
Michael Balfour	Independent Non-Executive Director	28/01/10	
Jeremy Blood	Independent Non-Executive Director	28/01/10	
Simon Burke	Deputy Chairman and Senior Independent Director (from 02/02/2010)	28/01/10	
John Lovering	Chairman (from 28/01/10)	28/01/10	

* Determined independent on appointment

Following the year end Tim Jones was appointed as Finance Director on 18 October 2010 and on 15 October 2010 Douglas McMahon was again appointed as a Non-Executive Director of the Company acting as a nominated shareholder representative of Piedmont Inc. Douglas McMahon is a non-independent Non-Executive Director.

The biographical details of Board Directors as at 22 November 2010 are set out on pages 24 and 25 and these include their main commitments outside the Company.

In accordance with the Company's Articles of Association the Company ensures that Directors submit themselves for re-election at least every three years. In the interests of good corporate governance and in anticipation of provision B.7.1 of the new UK Corporate Governance Code which will apply for financial periods commencing on or after 29 June 2010, each of the Directors wishing to continue will retire voluntarily and submit themselves for re-election by the shareholders. Sir Tim Lankester will retire by rotation at the AGM on 27 January 2011 and will not be offering himself for re-election. As noted above, given the unusual circumstances surrounding the appointment of Messrs Balfour, Blood, Burke and Lovering at the 2010 AGM, each of these four Directors has confirmed that they will stand down at the close of the Company's 2011 AGM in the event that they do not command support from a majority of shareholders excluding Piedmont Inc.

Details of the Executive Directors' service contracts are set out on page 46 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.

More information about the Directors standing for reappointment is set out in the AGM Notice and in the following paragraphs.

Chairman

John Lovering is the Chairman of the Board. He ensures that appropriate communication is maintained with shareholders. He has responsibility for the smooth running of the Board and for ensuring that all Directors are fully informed of matters relevant to their roles. He also chairs the Nomination Committee.

Chief Executive

Adam Fowle is the Chief Executive and has responsibility for implementing the strategy agreed by the Board and for the executive management of the Group.

Senior Independent Director

Simon Laffin was the Senior Independent Director until his appointment as Chairman on 30 November 2009. Given the Board changes which took place at the end of 2009 and beginning of 2010, there was no Senior Independent Director in place between Simon Laffin's appointment as Chairman on 30 November 2009 and the appointment of Simon Burke as Deputy Chairman, Senior Independent Director and chairman of the Audit Committee on 2 February 2010 whilst the Nomination Committee considered the Board composition as a whole. Despite there not being a Senior Independent Director during the period there has at all times been a strong representation of independent Non-Executive Directors on the Board available to meet with shareholders.

Non-Executive Directors

The Company has experienced Non-Executive Directors on its Board. In addition to the Chairman, who was independent upon his appointment, the Board considers Michael Balfour, Jeremy Blood, Simon Burke and Sir Tim Lankester to be independent as they are free from any business or other relationship which could materially influence their judgement and they represent a strong source of advice and independent challenge. Ron Robson and Douglas McMahon were appointed as Non-Executive Directors on 22 January 2010 and 18 October 2010 respectively, as representatives of the Company's largest shareholder, Piedmont Inc., and are therefore not regarded as independent.

Of the former Directors who served during the year, Tony Bates and Sara Weller were regarded as independent, as was Simon Laffin until his appointment as Chairman on 30 November 2009. Drummond Hall was determined independent on appointment but, as set out in the Combined Code, having served as Chairman from 20 June 2008 to 29 November 2009 the independence test is no longer appropriate to apply to his position. Although determined to be independent on their appointment, the former Board was unable to reach a conclusion regarding the independence of Denis Jackson and Ray MacSharry at the end of their tenure. Richard McGuire was a representative of the Company's largest shareholder, Piedmont Inc., and was therefore not regarded as an independent Non-Executive Director.

Other than their fees which are disclosed on page 47, 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 Company'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

Simon Burke is chairman of the Audit Committee and has chaired the Audit Committee since 2 February 2010. Simon Laffin chaired the Audit Committee until his appointment as Chairman of the Company on 30 November 2009 at which point he ceased to be a member of this Committee. Tony Bates was appointed a member of the Audit Committee on 16 October 2009 and chaired the Audit Committee from 7 December 2009 until he ceased to be a Director on 28 January 2010.

Sara Weller served as a member of the Audit Committee until her retirement on 28 January 2010. Denis Jackson and Ray MacSharry also served as members of the Audit Committee from 16 October 2009 until 2 December 2009. Since 2 February 2010, the Audit Committee has consisted of Simon Burke and three other independent Non-Executive Directors, Michael Balfour, Jeremy Blood and Sir Tim Lankester, who has served as a member of the Audit Committee throughout the financial year. The Chairman of the Board, the Chief Executive and the Finance Director attend such meetings at the invitation of the Committee's chairman. During FY 2010 the Committee met five times.

For the five day period between 28 January 2010 and 2 February 2010 the Company did not comply with the provisions of the Combined Code in respect of establishing an Audit Committee of at least three members, one of whom should have recent and relevant financial experience. During this period however no Committee meetings were held. In addition, due to the events which took place in late 2009 and early 2010, prior to 28 January 2010, the Audit Committee did not necessarily comply with the Combined Code in relation to establishing an Audit Committee of at least three members, all of whom should be independent Non-Executive Directors.

Further details about the Audit Committee are included in the Audit Committee report on pages 38 and 39.

Remuneration Committee
Michael Balfour is chairman of the Remuneration Committee and has chaired the Remuneration Committee since 2 February 2010. Sara Weller chaired the Remuneration Committee until she retired as a Director on 28 January 2010.

Sir Tim Lankester has been a member of the Remuneration Committee throughout the year. Simon Laffin was a member of the Remuneration Committee until 19 January 2010 and Drummond Hall was a member until 28 January 2010; Tony Bates was a member from 16 October 2009 until 28 January 2010. Denis Jackson and Ray MacSharry were also members of the Remuneration Committee from 16 October 2009 until 2 December 2009. Since 2 February 2010 the Remuneration Committee has consisted of Michael Balfour, chairman of the Committee and three other independent Non-Executive Directors, Jeremy Blood, Simon Burke and Sir Tim Lankester. The Remuneration Committee met eight times during FY 2010. Due to the events which took place in late 2009 and early 2010, prior to 28 January 2010, the Remuneration Committee did not necessarily comply with the Combined Code in relation to establishing a Remuneration Committee of at least three independent Non-Executive Directors.

Further details about the Remuneration Committee are included in the Remuneration report on pages 40 to 53.

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 the terms of reference for this Committee, a copy of which is available within the Investors section of the Company's website at www.mbplc.com

John Lovering, Chairman, chairs the Nomination Committee and has done so since 2 February 2010. Drummond Hall chaired the Committee until 30 November 2009 when Simon Laffin was appointed Chairman of the Company and chair of this Committee. Drummond Hall continued to serve as a member of this Committee until 28 January 2010. Simon Laffin chaired the Committee until 28 January 2010; he was also a member of the Nomination Committee prior to becoming chairman of the Committee.

Adam Fowle, Chief Executive, and Sir Tim Lankester have both served as members of the Nomination Committee throughout FY 2010. Sara Weller was a member of the Committee until 28 January 2010. Richard McGuire was a member of the Nomination Committee from 16 October 2009 to 1 December 2009. Tony Bates was also a member of the Committee from 7 December 2009 until 28 January 2010. Michael Balfour and Simon Burke have served as members of this Committee since 2 February 2010. Since 2 February 2010 the Nomination Committee has consisted of the Chairman, the Chief Executive and three of the independent Non-Executive Directors, Michael Balfour, Simon Burke and Sir Tim Lankester. The Company Secretary is secretary to the Nomination Committee.

Between 16 October 2009 and 1 February 2010 the Company did not comply with the provision of the Combined Code in respect of the Nomination Committee consisting of a majority of independent Non-Executive Directors. Notwithstanding this non-compliance, there was at all times a formal, rigorous and transparent procedure for the appointment of new Directors to the Board.

The Nomination Committee met nine times during the year to consider succession planning and the various changes in Board appointments during the year. It recommended the appointment of Simon Laffin as Chairman and the appointment of Tony Bates as Senior Independent Director. More recently the Nomination Committee recommended the appointment of Simon Burke as Deputy Chairman and Senior Independent Director and the appointment of John Lovering as Chairman, taking into account his other external commitments none of which were regarded as significant. The Nomination Committee also recommended the appointment of Tim Jones as Finance Director and the appointment of Douglas McMahon to the Board as a second representative of Piedmont Inc. Attendance levels at Nomination Committee meetings are provided in the table on page 33. Simon Burke did not attend the meeting to consider his appointment as Deputy Chairman and Senior Independent Director and John Lovering did not attend the meeting to consider his appointment as 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 directly with the chair of the Committee and the Company Secretary.

Corporate governance statement continued

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, consists of the Executive Directors and certain other senior executives as shown on page 25.

The Executive Committee meets 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 auditors.

Internal control
The Board is responsible 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 Combined Code, including clear operating procedures, lines of responsibility and delegated authority. These procedures, which are in accordance with Turnbull Guidance, have been in place since the Group was listed and are regularly reviewed by the Board.

The Company has in place internal control and risk management systems in relation to the Company's financial reporting process and the Group's process for preparation of consolidated accounts. These systems include policies and procedures to facilitate the maintenance of records that accurately and fairly reflect transactions, 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, and that require reported data to be reviewed and reconciled, with appropriate monitoring internally and by the Audit Committee.

Business performance is managed closely and the Board and the Executive Committee have established processes, as part of the normal good management of the business, to monitor:

- strategic plan achievement;
- financial performance within a comprehensive financial planning, accounting and reporting framework;
- capital investment and asset management performance, with detailed appraisal, authorisation and post investment reviews;
- consumer insight data and actions to evolve brands and formats to ensure that they continue to be appealing and relevant; and
- risk management, through an ongoing process, through reports from Group Assurance, that the significant risks faced by the Group are being identified, evaluated and appropriately managed, having regard to the balance of risk, cost and opportunity.

In addition, the Audit Committee receives:

- reports from Group Assurance on the work carried out under the annual internal audit plan; and
- reports from the external auditors.

Through the monitoring processes set out above, the Board has conducted a review of the effectiveness of the system of internal control during the year ended 25 September 2010. 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, the review, in the opinion of the Board, did not indicate that the system was ineffective or unsatisfactory and 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 major institutional shareholders which provides an opportunity to discuss, on the back of publicly available information, the progress of the business. The Company also commissions an independent survey of investors each year to determine external views of the Company; the feedback is then used by the Board to inform the Company's future direction. On a more informal basis, the Chairman, the Chief Executive and the Finance Director regularly report to the Board the views of major shareholders about the Company, and the Senior Independent Director and other Non-Executive Directors are available to meet shareholders on request and are offered the opportunity to attend meetings with major shareholders.

The AGM provides a useful interface with private 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
In FY 2010 the Board carried out a formal Board Governance Assessment including a review of issues relating to the Board as a whole, the performance of the Chairman and the priority of tasks.

The process included the completion of a detailed questionnaire by the then current Board Directors* and included an opportunity for each Director to make comments. The areas covered in the questionnaire were the Board's role and its organisation, the Board dynamic and relationships, quality of information flows and decision-making, Board committees, performance monitoring and the Board's priority tasks. The output was compiled into a report which was agreed with the Senior Independent Director, Simon Burke, who led the evaluation process. The report was subsequently discussed between the Chairman and the rest of the Board.

During the year the Non-Executive Directors met without the Executive Directors present, and the Non-Executive Directors also met without the Chairman present, led by the Senior Independent Director, to appraise the Chairman's performance. The outcome of this appraisal was positive and confirmed that he brought valuable experience and expertise to the Board, made valuable contributions to Board discussions, listened to others' views and was committed to the Company's success.

An external evaluator was used as part of the evaluation process for FY 2008. Given the level of Board changes during FY 2010 it was not considered appropriate to use an external evaluator this year however it is intended than an external evaluator will be used for the evaluation for FY 2011.

John Lovering
Chairman

* Tim Jones and Douglas McMahon did not participate as they were not on the Board at the time the evaluation was carried out.

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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The Company's Audit Committee (the 'Committee') has, with the exception of the matter described below in respect of its composition, met the requirements of the Combined Code on Corporate Governance throughout the year. 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 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 auditors 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;
- assume direct responsibility for the appointment, compensation, resignation, dismissal and the overseeing of the external auditors, including review of the external audit, its cost and effectiveness;
- pre-approve non-audit work to be carried out by the external auditors and the fees to be paid for that work together with the monitoring of the external auditors' 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 Simon Burke, who was appointed as an independent Non-Executive Director on 28 January 2010 and as the chairman of the Committee on 2 February 2010. As a Chartered Accountant he has current and relevant financial experience and is considered to be the Committee's financial expert. The previous chairman of the Committee, Tony Bates, was appointed as chairman of the Committee on 7 December 2009 in succession to Simon Laffin who ceased to be chairman and a member of the Committee on 30 November 2009 upon his appointment as Chairman of the Board. Tony Bates ceased to be a Director on 28 January 2010 upon the failure of the resolution at the Annual General Meeting in respect of his reappointment. Simon Laffin as a qualified accountant and the former chief financial officer of a then FTSE 100 company, had current and relevant financial experience and was considered to be the Committee's financial expert. Tony Bates as a Chartered Accountant and the former chief financial officer of a FTSE 250 company, had current and relevant financial experience and was considered to be the Committee's financial expert for the period 30 November 2009 to 28 January 2010.

The Committee's other members are currently Michael Balfour, Jeremy Blood and Sir Tim Lankester. Michael Balfour and Jeremy Blood were appointed as independent Non-Executive Directors on 28 January 2010 and as members of the Committee on 2 February 2010.

Tony Bates, Denis Jackson and Ray MacSharry were appointed as members of the Committee on 16 October 2009. Denis Jackson and Ray MacSharry ceased to be Directors on 2 December 2009. Sara Weller was a member of the Committee until she retired as a Director on 28 January 2010.

For the five day period between 28 January 2010 and 2 February 2010 the Company did not comply with the provisions of the Combined Code in respect of establishing an Audit Committee of at least three members, one of whom should have recent and relevant financial experience. During this period however no Committee meetings were held.

The Committee wishes to retain the knowledge, experience and judgement of the Chairman of the Board, John Lovering, but, reflecting recommendations within the FRC Guidance on Audit Committees, he is not a member of the Committee, but may attend at the invitation of the Committee's chairman. The Committee regularly invites the external auditors, the Chief Executive, the Finance Director and the Director of Group Assurance to its meetings. The Company Secretary attends and is secretary to the Committee. Discussions are held in private when appropriate.

Audit Committee frequency

The Committee meets at least four times a year. During FY 2010 five meetings of the Committee were held and, with the exception of Sir Tim Lankester who attended four meetings, all members attended each of the meetings during their periods of membership.

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 meets privately with the external auditors 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 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 auditors and trends in the non-audit fees in accordance with the Committee's policy to ensure the safeguard of audit independence;
- the scope of the annual internal audit plan, Group Assurance's terms of reference, its resourcing and external support;
- the external auditors' interim and full year reports;
- periodic internal control and assurance reports from Group Assurance;
- the effectiveness of the external auditors and consideration of their reappointment;
- reports on allegations made via the Group's whistleblowing procedures and the effectiveness of these procedures;
- the effectiveness of Group Assurance;
- management representations granted to the external auditors 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;
- review of the suitability of the Group's accounting policies and practices;
- the status of material litigation involving the Group; and
- the Committee's own terms of reference, membership and its effectiveness.

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

External auditors' independence

The Committee has adopted a policy on the use of the external auditors for non-audit work which is in compliance with the Combined Code. The external auditors 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 auditors must be approved, subject to a *de minimus* limit, by the Committee or its chairman. 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.

Approved by the Board

Simon Burke
Chairman of the Audit Committee
22 November 2010

Report on Directors' remuneration

The Remuneration Committee's responsibilities include:

Determining the framework for remuneration
The Committee makes recommendations to the Board on the Company's framework of executive remuneration and determines on the Board's behalf the entire individual remuneration packages for each Executive Director and for the Company Chairman. The Committee also considers the level and structure of remuneration for other senior executives.

Ensuring that remuneration is aligned with and supports the Company's strategic plan
Following the announcement in March 2010 of the outcome of the Company's strategic review the Committee carried out a comprehensive assessment of long-term incentive and pension arrangements to ensure that these remained consistent with the delivery of the Company's strategic objectives.

Maintaining positive dialogue with investors on remuneration matters
The Committee consulted extensively with major shareholders over the development of the Mitchells & Butlers' Long-Term Incentive Plan 2010 (the 'LTIP') (see page 44) which is intended to ensure greater alignment between executive reward and shareholder returns.

Ensuring that the remuneration structure supports the attraction, retention and motivation of high calibre executives
There has been a significant level of change in the senior management group over the year. The Committee has been proactive in reviewing base pay and employment terms for all new senior appointments.

This report has been prepared by the Remuneration Committee (the 'Committee') and has been approved by the Board. It complies with the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008, the Combined Code on Corporate Governance (the 'Combined Code') and with the UKLA Listing Rules. Throughout this report, references to the year are to the 52 week period ended 25 September 2010. This report will be put to shareholders for approval at the forthcoming AGM to be held on 27 January 2011.

Committee remit and membership
The Committee's terms of reference and those of their advisers have been formally adopted by the Board and are available in the investors section of the Company's website www.mbplc.com/investors under corporate governance. The key responsibilities of the Committee are summarised above.

In the reporting year the Committee consisted of the following Non-Executive Directors:

Bronagh Kennedy (Company Secretary & General Counsel throughout FY 2010) attended each meeting as Secretary to the Committee.

At the invitation of the Committee chairman the following members of management attended the Committee: Chief Executive, Adam Fowle; HR, Service & Productivity Director, Chris Edger (until 2 July 2010), Saudagar Singh (from 2 July 2010); and Director of Compensation & Benefits, Sheila Mellish.

The Company Chairman, John Lovering, also attended at the invitation of the Committee chairman.

No member of management attended on matters directly concerning their own remuneration. The Company Chairman does not attend Committee meetings when his fee is under review.

The Committee received external advice during the year from independent remuneration consultants PricewaterhouseCoopers LLP ('PwC') and Deloitte & Touche LLP ('Deloitte') as well as from the Company's general legal advisers, Allen & Overy LLP and Freshfields Bruckhaus Deringer LLP. Deloitte was initially appointed in May 2007 providing advice until February 2010 when PwC was appointed by the Committee. PwC provided advice to the Committee on the design and implementation of the LTIP and on the appointment terms for a number of senior executives including the Finance Director. Since their appointment PwC has provided other tax services to the Company and provided advice to the Company on Non-Executive Directors' fees but did not provide advice on executive remuneration matters other than to the Committee.

The Committee met eight times during the year under review. Michael Balfour was unable to attend one meeting, otherwise there was full attendance. Where a Director was unable to attend a meeting, he was nevertheless provided with all the papers and information relating to that meeting.

In line with its remit, the following key issues were addressed by the Committee during the year:

- approval of the 2009 Directors' Remuneration report;
- review of all share plan performance measures against FY 2009 year end targets;
- review and approval of all awards made under the Performance Restricted Share Plan and Short-Term Deferred Incentive Plan;
- determination of Executive Director and senior manager appointment and termination arrangements;
- determination of the future reward framework for Executive Directors and senior managers;
- consulting with shareholders and obtaining approval for the LTIP;
- future pension provision;
- consideration of advisory bodies' and institutional investors' guidelines on executive compensation; and
- design of and targets for the FY 2011 annual performance bonus.

	Period	
Member	From	To
Michael Balfour (Committee chairman from 02/02/10)	02/02/10	To date
Jeremy Blood	02/02/10	To date
Simon Burke	02/02/10	To date
Sir Tim Lankester	16/05/03	To date
Tony Bates	16/10/09	28/01/10
Drummond Hall	30/07/04	28/01/10
Denis Jackson	16/10/09	02/12/09
Simon Laffin	29/01/09	19/01/10
Ray MacSharry	16/10/09	02/12/09
Sara Weller (Committee chairman until 28/01/10)	15/04/03	28/01/10

Overview of Executive Directors' remuneration FY 2011

Executive Directors' remuneration was extensively reviewed in FY 2009 and the changes were explained in detail in the 2009 report. Since that review the Committee has, with the support of shareholders, introduced the LTIP. The Committee has also determined that the structure of the annual performance bonus should be adjusted to reinforce the principle of more directly aligning pay to individual contribution. This is to be achieved in FY 2011 through an increase in the proportion of the annual performance bonus which relates to the achievement of personal and Group business objectives from 25% to 45% of salary. Business measures align with the strategic review announced in March 2010, and include delivering an improvement in return on capital and net margin as well as increased focus on growth of food sales. The maximum payment under the annual performance bonus remains unchanged at 100% of salary.

Overview of Executive Directors' remuneration
FY 2011 structure

Element	Purpose	Delivery	Summary details	Alignment with strategy
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.	Provides a sound basis on which to attract and retain executives of a high calibre.
Annual Performance Bonus (cash)	Provides a direct link between business and individual 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 55% (2010 75%) is based on the financial performance (operating profit) (2010 PBT) of the Group and 45% (2010 25%) on achievement of personal and Group business objectives.	Provides a direct link between operational and personal performance and reward.
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.	Ensures that Directors' and shareholders' interests are closely aligned.
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.	Incentivises growth and increasing shareholder value.
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.	Provides a sound basis on which to attract and retain executives of a high calibre.
Other benefits	To provide market competitive benefits.	Benefit in kind or cash allowance. Non-pensionable.	Benefits include private medical insurance, life assurance and use of a Company owned vehicle or cash equivalent.	

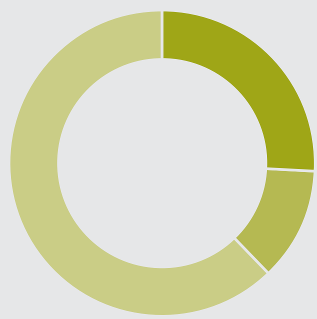
Remuneration policy for Executive Directors

It is intended that the remuneration framework as set out below, which has applied throughout the reporting year, will continue to apply for FY 2011:

- the packages will be competitive within the leisure retail sector and in those markets from which the organisation recruits; pay and benefits will be assessed by reference to market practice in the FTSE All-Share index, as well as relevant sector specific comparators;
- there will be an appropriate balance between fixed and variable reward; the relationship between fixed and variable pay for 'on target' performance is summarised in the chart opposite;
- base salary will normally be set within a competitive range, broadly at median market level when compared with appropriate comparator companies but, by exception, may extend into the upper quartile to attract new employees and reward key individuals for consistent outstanding performance; and
- incentives should not encourage excessive risk taking.

It is intended that, from FY 2011, the service contracts of newly appointed Executive Directors should provide that any payments made in lieu of notice will comprise base salary only. In line with current policy, such amounts will normally be payable in equal instalments until the expiry of the notice period or, if earlier, the date on which the former Director secures alternative employment.

Relationship between variable and fixed pay for 'on-target' performance:



The Committee has reaffirmed that shares arising from share schemes should not normally be sold until the minimum level of ownership required to satisfy the mandatory shareholding requirement, being 1 times base salary, has been satisfied; Directors' shareholdings are set out on page 53.

Executive Directors' remuneration

In setting Executive Directors' remuneration the Committee is mindful of a range of factors, including remuneration policy, incentive arrangements and remuneration across the Group. The Committee is regularly updated on pay and conditions applying to other Group employees; these are taken into consideration when setting Executive Director remuneration. The proportion of the Group's basic salary bill attributable to the Executive Directors and other members of the Executive Committee in 2010 was 0.6% (2009 0.6%).

The average earnings (base salary and annual performance bonus) of the Executive Directors were £577,603 (2009 £414,600) and the average earnings, on a full time equivalent basis, per non-Board employee were £14,366 (2009 £13,979); the ratio is therefore 1:40 (2009 1:30). The Board and the Committee do not have a policy on this ratio but aim to reward all employees fairly according to the nature of their role, their performance and market forces.

In the year under review there was no base salary increase for members of the Executive Committee, which includes the Executive Directors. Except for retail staff there was no base salary increase applied to other employees; the average increase for retail staff was 1.1%.

The total emoluments, including benefits in kind, earned by those members of the Executive Committee who were employed in the Group at the year end, and who were not Executive Directors, are shown in the table below.

Number of executives	£000
2*	101 – 150
5	451 – 500

* Part year

Annual performance bonus and Short-Term Deferred Incentive Plan ('STDIP')
For FY 2010, the maximum combined opportunity under the annual performance bonus and STDIP was 100% of salary (2009 200%). Of this, 75% was linked to profit before tax (before exceptional items and other adjustments) ('PBT') and 25% to personal and Group business objectives.

In respect of FY 2010, 17.0% (out of a maximum of 25%) of salary is payable in respect of performance against personal and Group business objectives and 70.6% (out of a maximum of 75%) of salary is payable in respect of PBT performance.

At least 50% of the bonus payable in respect of FY 2010 will be deferred and converted into a conditional award of Bonus Shares. Such shares will be released in two equal tranches, 12 and 24 months after deferral (the 'Release Dates'). To the extent that a participant becomes entitled to these 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). There is no Matching Share award.

A clawback provision applies to bonus awards from FY 2010 forwards such that any Bonus Share award may, at the discretion of the Committee, be reduced or lapsed should it subsequently be confirmed that the original results on which the bonus was calculated contained a material mis-statement of the Company's financial results.

There was no annual bonus or Matching Share award granted in FY 2009. No Matching Share award vested in FY 2010.

The vesting of the Matching Share award granted in December 2008 is to be determined in November 2011. On the vesting of such Matching Shares, Dividend Accrued Shares may also be awarded.

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

There is no retesting of the performance condition.

Performance measurement under the STDIP is reviewed and certified by the Company's auditors.

Outstanding awards

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 Earnings per Share ('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.	To be determined at vesting in November 2011.	–
Commencement of FY 2008 to end of FY 2010	–	There is no award in respect of the period 2008 to 2010 as no bonus was awarded in respect of FY 2007.	–	–
Commencement of FY 2007 to end of FY 2009	EPS growth in excess of RPI.	As FY 2009 to FY 2011 above.	Growth in average EPS was 1.7%. Growth in RPI was 7.6%.	None of the award vested.

Long-Term Incentive Plan 2010 ('LTIP')

Following the announcement in March 2010 of the outcome of the Company's strategic review the Committee reviewed the long-term incentives of the Company and concluded that to support the strategy a new long-term plan was needed which:

- was simpler and more transparent than the existing arrangements;
- provided the potential to earn significant rewards, but only if significant shareholder value, underpinned by improvements in financial performance is created such that participants only benefit if shareholders also benefit; and
- retained management beyond a three year performance period.

The LTIP was approved by shareholders on 29 July 2010. An award was made on 30 July 2010 and, subject to performance, will vest from November 2013. Participants have been awarded a right to receive shares in the Company with a value equal to their allocated percentage of the LTIP pool.

The size of the LTIP pool is linked to the increase in market capitalisation of the Company over a three year performance period. The base market capitalisation of the Company on 30 July 2010 was £1,218m (calculated using the average closing price of a share in the Company for the period commencing 22 June 2010 and ending 29 July 2010, being 297.94p).

For an award to vest the base market capitalisation must grow by an amount equivalent to at least 10% per annum over the performance period (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 of award is £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 the satisfaction of an additional performance condition linked to Adjusted EPS. No award will vest unless the growth in Adjusted EPS over the Company's three financial years commencing 26 September 2010 is at least equal to the growth in the RPI plus 12 percentage points for the same period. 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 will be converted into shares using the market value of a share at the end of the performance period and delivered on vesting to participants in accordance with their allocated percentage share of the LTIP pool.

Following the determination of satisfaction of the performance conditions, 50% of the shares under an award will vest in November 2013. A further 25% of the shares under an award will vest 12 months after the first vesting date and the remaining 25% will vest 24 months after the first vesting date.

Adam Fowle's share of the pool is 10% of the excess of the end market capitalisation over the Hurdle Amount. It is intended that Tim Jones, Finance Director, will be granted a conditional award over up to 5% of the pool pro rata to service from 18 October 2010 to 29 July 2013.

Although shares will be delivered under the LTIP as described above, 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.

The table below illustrates the relationship between share price growth and the LTIP pool based on share price growth from 30 July 2010.

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 may 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.

The LTIP is intended to be operated only once. Participants in the LTIP, including Executive Directors, will not participate in any new awards under the Performance Restricted Share Plan ('PRSP') during the three year LTIP performance period.

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 auditors.

Figure 1 Relationship between share price growth and the LTIP pool

3 month average share price to 29 July 2013	Equivalent share price growth p.a.	Excess market capitalisation above the Hurdle Amount (£m)	LTIP pool, 10% of excess above the Hurdle Amount (£m)
£4.00	10.3%	14	1.4
£4.50	14.7%	219	21.9
£5.00	18.8%	423	42.3
£5.50	22.7%	627	62.7

Each 50p increase in share price is equivalent to a £204m increase in market capitalisation and a £20.4m increase in the LTIP pool (up to the cap (£100m))

Performance Restricted Share Plan ('PRSP')

Under the PRSP, nominal cost options with a value of up to 200% of a Director's basic annual salary may be granted. In practice the Committee has applied limits of 177% (for cycles ending in FY 2009 and FY 2010) and 140% (for cycles ending in FY 2011 and FY 2012). An award was granted on 30 November 2009.

At the discretion of the Committee, a nominal cost option over Dividend Accrued Shares may be granted in respect of shares which have vested at the end of each performance period.

Performance measurement under the PRSP is reviewed and certified by the Company's auditors. Details of awards including those that vested in the reporting year are set out below.

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'. 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 performance matches the comparator group index; 100% vests for index outperformance of 1.35. There is straight line vesting between these points. 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.	To be determined at vesting in November 2012.	–
1 October 2008 to 30 September 2011	50% of award measured against relative TSR. 50% of award measured against the average excess of CROCCE* versus WACC**, post tax.	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. 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.	To be determined at vesting in November 2011.	–
1 October 2007 to 30 September 2010	As 2008 to 2011 above.	Relative TSR[1] – 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 will vest and 32.3% of the CROCCE versus WACC element will vest.
1 October 2006 to 30 September 2009	As 2008 to 2011 above.	Relative TSR[2] – as 2008 to 2011 above. CROCCE versus WACC – as 2007 to 2010 above.	6th in the TSR comparator group; the average excess of CROCCE versus WACC was 4.40 percentage points.	None of the TSR element vested and 41.3% of the CROCCE versus WACC element vested.

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

[1] Regent Inns was removed from the comparator group following its delisting on 15 June 2009
[2] Gondola Holdings was removed following its delisting at the end of 2006

* Cash Return on Cash Capital Employed
** Weighted Average Cost of Capital

TSR was chosen as a measure as it aligns the interest of management with that of shareholders; 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.

As part of the review of Executive Directors' remuneration detailed in the 2009 report, the Committee reviewed the performance measures applicable to the PRSP for the performance period 1 October 2009 to 30 September 2012. To reduce the potential volatility in vesting levels for only small differences in TSR performance the Committee determined that TSR would be measured against an index and subject to a 'floor'; if there has been no share price appreciation over the performance period the TSR element of the award will not be capable of exercise, irrespective of relative outperformance. 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.

Other share plans

Sharesave

Sharesave is an HM Revenue & Customs ('HMRC') approved all employee share option plan in which all eligible employees, including Executive Directors, are invited to participate. Sharesave options are typically exercisable for six months following an initial three or five year option period. Performance targets do not apply to Sharesave.

Share Incentive Plan

The Share Incentive Plan is an HMRC approved all employee share plan in which all eligible employees, including Executive Directors, are invited to participate. 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. Executive Directors' entitlements under the Share Incentive Plan are set out on page 52.

Pension (or cash allowance)

Executive Directors are eligible for membership of the defined contribution section of the Mitchells & Butlers Executive Pension Plan (the 'Plan'). Tim Jones has participated in the Plan since his appointment on 18 October 2010. Jeremy Townsend was a participant in the Plan until the cessation of his employment with the Group on 31 August 2010.

The Company operates a salary sacrifice arrangement whereby part of an Executive Director's salary can be sacrificed and an amount paid into the Plan representing what would otherwise have been the Executive Director's contribution. Any reference to Directors' contributions in this report includes the amount that an Executive Director would have contributed but for the salary sacrifice.

Active members of the Plan have the option to pay Additional Voluntary Contributions.

Defined contribution section members may elect to pay 3%, 4% or 5% of their basic salary which, for Executive Directors, is matched on a four times basis up to a maximum of 20% by the Plan; alternatively the Director may be provided with a cash allowance equivalent to the net cost to the Company of the contribution which would otherwise be made to the Plan. The main features of the defined contribution section of the Plan are:

- a normal pension age of 60;
- life assurance cover of four times basic salary; and
- full and partial incapacity benefit provision.

Executive Directors' contracts

Details of the service contracts of Executive Directors who served during FY 2010 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 substantial conflict. Fees received may be retained by the Director. No such non-executive appointments have applied in the year to 25 September 2010.

Tim Jones' employment as Finance Director commenced on 18 October 2010. Tim's base salary on appointment has been set as £375,000 per year. In all other respects Tim's contract is consistent with the terms set out in the table (figure 2) below.

Company Chairman's remuneration

John Lovering's fee has been set as £350,000 per year. Since his appointment John has taken a leading role in supporting the Chief Executive and senior management team in securing the delivery of the strategic plan. The entire net proceeds of John's fee have been invested by him in Mitchells & Butlers' shares. It is a condition of his appointment that shares purchased from the net proceeds of at least £100,000 will be held by him for a minimum of 12 months or for the duration of his tenure as Chairman of Mitchells & Butlers, whichever is the longer.

Figure 2 Executive Directors' contracts

Director	Contract start date	Unexpired term	Notice period from Company	Minimum notice period from Director	Phased compensation on termination[a]	Compensation on change of control
Adam Fowle	01/10/07	Indefinite	12 months	6 months	Yes	No
Jeremy Townsend[b]	31/01/08	Nil	12 months	6 months	Yes	No

[a] Instead of giving notice to terminate a Director's employment the Company may terminate his employment with immediate effect and pay him in lieu of notice his basic salary, pension contribution and other contractual benefits that would be payable during his notice period; such amounts will normally be payable in equal instalments on the established payroll dates, until the expiry of the notice period or if earlier, the date on which the former Director secures alternative employment.

[b] Jeremy Townsend resigned as a Director of the Company on 31 August 2010 and his employment with the Group terminated. No termination payment was made to Jeremy.

John serves under a letter of appointment which provides for his tenure of office to be reviewed when he is about to stand for re-election. The appointment may be terminated at any time upon six months written notice from the Company, or, after the first year, upon six months written notice from John. The appointment may be terminated at any time by the Company by summary notice and without liability if any of the terms of the appointment or the provisions of the Articles or the Companies Act are breached. Payment of fees will cease immediately if the appointment ends for any reason.

Non-Executive Directors' remuneration

Non-Executive Directors are normally paid a basic fee with additional fees for membership of the Remuneration and Audit Committees and for chairing those committees. No additional fee is paid for membership of the Nomination Committee. Non-Executive Directors do not participate in the Company's bonus arrangements, share schemes or pension plans.

The remuneration of the Non-Executive Directors is decided by the Board. Non-Executive Directors' fees were reviewed against market practice in 2009. The annual fee level and structure put in place at that time is set out in figure 3 below.

The Board has determined that the fee level and structure is to be next reviewed in 2011.

In recognition of his multiple roles and responsibilities the fee for Simon Burke, Deputy Chairman, Senior Independent Director and chairman of the Audit Committee has been set as £125,000 per year. In line with the terms of his appointment Simon has invested the net proceeds of £50,000 of such fee in Mitchells & Butlers' shares. It is a condition of his appointment that these are held for a minimum of 12 months or for the duration of his tenure as a Non-Executive Director of Mitchells & Butlers, whichever is the longer.

The fee for Michael Balfour has been set as £102,000 per year, comprising the basic fee of £40,000, £6,000 for membership of each of the Remuneration and Audit Committees plus an additional £50,000 in respect of his chairmanship of the Remuneration Committee. In line with the terms of his appointment Michael has invested the net proceeds of such fee in Mitchells & Butlers' shares. It is a condition of his appointment that these are held for a minimum of 12 months or for the duration of his tenure as a Non-Executive Director of Mitchells & Butlers, whichever is the longer.

Fees for other Non-Executive Directors are in line with the policy set out in figure 3.

Non-Executive Directors' letters of appointment

Non-Executive Directors do not have service contracts but serve under a letter of appointment which provides for their tenure of office to be reviewed when they are about to stand for re-election which has historically been every three years. Each Director voluntarily intends to stand for re-election at the 2011 AGM in anticipation of the new requirement B.7.1 of the UK Corporate Governance Code which will apply for accounting periods beginning on or after 29 June 2010.

The appointments of the Non-Executive Directors are terminable on immediate notice without provision for termination payments.

The dates of appointment of the Non-Executive Directors are set out on page 33.

FTSE 250 comparators

As required by the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008, the Company's TSR performance is shown below against a recognised share index, the FTSE 250 index. Although the Company was a constituent of the FTSE 100 index from 21 April 2007 to 24 December 2007, given this short period of time, the graph below measures the Company's TSR performance, assuming dividends are reinvested, against only the FTSE 250 index.

Total shareholder return from 23 September 2005 to 25 September 2010
(rebased to 100)

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

Figure 3 Non-Executive Directors' fee level and structure

Dates	Basic fee £	Committee chairman fee* £	Senior Independent Director fee £	Committee member fee* £
From May 2009 to date	40,000	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

Directors' remuneration

	Basic salaries and fees £000	Annual performance bonus £000	Cash allowance in lieu of participation in the pension plan £000	Benefits £000	Payments in connection with the termination of employment £000	Total remuneration (excluding pensions) 2010 52 weeks £000	Total remuneration (excluding pensions) 2009 52 weeks £000
Executive Directors							
Adam Fowle	548	480	97	26	–	1,151	519
Non-Executive Directors							
John Lovering[a]	350*	–	–	–	–	350	–
Michael Balfour[a]	102*	–	–	–	–	102	–
Jeremy Blood[a]	34	–	–	–	–	34	–
Simon Burke[a]	99**	–	–	–	–	99	–
Tim Lankester	52	–	–	–	–	52	49
Ron Robson[b]	27	–	–	–	–	27	–
Former Directors							
Tony Bates[c]	18	–	–	–	–	18	–
Drummond Hall[d]	42	–	–	–	–	42	199
Denis Jackson[e]	9	–	–	–	–	9	3
Simon Laffin[f]	37	–	–	–	–	37	40
Ray MacSharry[e]	9	–	–	–	–	9	3
Richard McGuire[g]	7	–	–	–	–	7	8
Douglas E McMahon[h]	2	–	–	–	–	2	–
Jeremy Townsend[i]	325	–	–	13	–	338	358
Sara Weller[j]	20	–	–	–	–	20	57
Other[k]	–	–	–	–	–	–	833
Total reporting year	1,681	480	97	39	–	2,297	
Total prior year	1,747	–	71	79	172		2,069

* The amount shown represents the entire annual fee in respect of the period to 27 January 2011 which was paid in advance. The net proceeds were invested in shares in Mitchells & Butlers plc. See pages 46 and 47. The fee receivable in relation to FY 2010 was, in respect of John Lovering, £231,096 and in respect of Michael Balfour, £67,348.

** £82,534 was receivable in relation to FY 2010. £50,000 of the annual fee was paid in advance. The net proceeds of this £50,000 were invested in shares in Mitchells & Butlers plc. See page 47.

[a] John Lovering was appointed as Director and Company Chairman on 28 January 2010. Michael Balfour, Jeremy Blood and Simon Burke were appointed as independent Non-Executive Directors on 28 January 2010.
[b] Ron Robson was appointed as a non-independent Non-Executive Director on 22 January 2010
[c] Tony Bates ceased to be a Director on 28 January 2010
[d] Drummond Hall stood down as Chairman from 30 November 2009; he ceased to be a Director on 28 January 2010
[e] Denis Jackson and Ray MacSharry ceased to be Directors on 2 December 2009
[f] Simon Laffin was appointed as Chairman on 30 November 2009; he ceased to be a Director on 28 January 2010
[g] Richard McGuire ceased to be a Director on 1 December 2009
[h] Douglas E McMahon was appointed as a non-independent Non-Executive Director on 18 November 2009; he ceased to be a Director on 2 December 2009 and was subsequently reappointed as a Director on 15 October 2010
[i] Jeremy Townsend resigned as a Director of the Company and his employment with the Group ceased on 31 August 2010
[j] Sara Weller retired from the Board on 28 January 2010
[k] In respect of Directors who retired from the Board during FY 2009

'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 and healthcare cover.

Tim Clarke's employment with the Mitchells & Butlers Group ceased on 21 May 2009. Under his termination arrangements Tim was entitled to four weekly instalments of a termination sum equal to base pay and benefits (but not bonus) for the duration of the 12 months notice period unless he commenced an alternative role. Payments continued until the end of the notice period on 20 May 2010 and in the reporting year totalled £382,788. In addition, the transfer value of his pension increased from £8,094,700 to £8,863,400 during the period 27 September 2009 to 23 March 2010. Tim waived his pension entitlement for the period 24 March 2010 to 20 May 2010. The instalments of the sum (£172,327) paid in FY 2009, and pension accrual in respect of that period, were disclosed in the Directors' Remuneration Report for that year.

As shareholders are aware, the breakdown in relationships between the Directors of the Company in late 2009 resulted in the removal of certain Non-Executive Directors from the Board. Following a review of all relevant circumstances by external lawyers, the Board accepted that these Directors acted in what they believed to be the best interests of the Company. It was announced on 13 May 2010 that the Company had made a payment to certain of these former Non-Executive Directors. The sum of £100,000 was paid to each of Denis Jackson and Ray MacSharry towards their legal and other costs. In addition, the Company paid legal fees totalling £2,500 incurred by the Executive Directors at the time, Adam Fowle and Jeremy Townsend, for advice in relation to their duties as Directors.

Short-Term Deferred Incentive Plan

The table below shows the maximum Matching Shares receivable based on some or all, as determined by the Committee, of the Directors' annual bonuses in respect of FY 2006 and FY 2008 being deferred into share awards. Vesting of all awards of Matching Shares is subject to a performance condition. This is described on page 43.

Director	Matching shares held at 26/09/09	Award date	Market price per share at award (p)	Matching shares held at 25/09/10 or earlier leaving date as stated	Actual/ planned vesting date	Value based on share price of 301.6p at 25/09/10 £
Adam Fowle	19,331	02/12/08	158.42	19,331	25/11/11	58,302
Total	**19,331**			**19,331**		**58,302**
Former Director				31/08/10		
Jeremy Townsend	3,257	02/12/08	158.42	3,257[a]	–	–
Total	**3,257**			**3,257**		**–**

[a] Matching Shares lapsed on 31 August 2010

No Matching Share awards were granted in the year. No Matching Shares vested in FY 2010 or FY 2009.

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 45.

Director	Maximum potential shares held at 26/09/09	Shares awarded during the year to 25/09/10	Award date	Market price per share at award (p)	Lapsed during FY 2010	Exercised during FY 2010	Market price per share at exercise (p)	Value at exercise £	Actual/ planned vesting date	Maximum potential shares held at 25/09/10 or earlier leaving date as stated	Latest lapse date	Maximum value based on share price of 301.6p at 25/09/10 £	Expected value based on share price of 301.6p at 25/09/10 £
Adam	65,506	–	01/12/06	670.00	51,980	13,526	284.80	38,522	27/11/09	–	–	–	
Fowle	290,844	–	23/06/08[a]	213.00	–	–	–	–	24/11/10	290,844	24/11/12	877,186	141,665
	293,852	–	28/11/08	166.75	–	–	–	–	25/11/11	293,852	25/11/13	886,258	
	–	1,449[b]	27/11/09	255.77	–	1,449	284.80	4,127	27/11/09	–	–	–	
	–	304,346	30/11/09	253.00	–	–	–	–	30/11/12	304,346	30/11/14	917,908	
Total	**650,202**	**305,795**			**51,980**	**14,975**		**42,649**		**889,042**		**2,681,352**	
Former Director										31/08/10			
Jeremy	44,776	–	01/12/06	670.00	35,530	9,246	279.00	25,861	27/11/09	–	–	–	
Townsend	245,322	–	23/06/08[a]	213.00	–	–	–	–	24/11/10	245,322	01/09/10	–	
	260,268	–	28/11/08	166.75	–	–	–	–	25/11/11	260,268	01/09/10	–	
	–	990[b]	27/11/09	255.77	–	990	279.00	2,769	27/11/09	–	–	–	
	–	193,674	30/11/09	253.00	–	–	–	–	30/11/12	193,674	01/09/10	–	
Total	**550,366**	**194,664**			**35,530**	**10,236**		**28,630**		**699,264**		**–**	

[a] The award which would normally have been made in November 2007 was deferred until June 2008
[b] Dividend Accrued Shares awarded in respect of options which vested on 27 November 2009

1. The interests of Jeremy Townsend are shown as at the date of his cessation of employment with the Company, 31 August 2010.

2. All of Jeremy Townsend's outstanding options lapsed on 1 September 2010.

The potential total gross gain made in the year by all the Directors had they sold all their shares when they exercised them was £71,279 (2009 £400,789).

Long-Term Incentive Plan

The table below sets out details of the award made in July 2010 in respect of the LTIP. The performance conditions relating to the award and basis of calculation of the LTIP pool are set out on page 44.

Director	End of year to which performance is based for award	Maximum LTIP share awards held at 26/09/09	Awarded	Award date	Market price at award (p)	Performance condition determination date	Actual/ planned vesting date	Maximum LTIP share awards held at 25/09/10
Adam Fowle	2013	nil	[a]	30/07/10	297.94	29/07/13	[b]	[a]

[a] The participation percentage in respect of Adam Fowle is 10% of the LTIP pool. The base market capitalisation for the award 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.
[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. At the discretion of the Committee, vesting is generally dependent on the employee being in service with the Company on the vesting date.

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. the increase of market capitalisation at the end of the performance period (calculated using the average share price for the 3 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 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' shares under option granted under the Executive Share Option Plan ('EXSOP') and Sharesave plans.

		Ordinary shares under option							
Director	Date of grant	Opening balance 26/09/09	Vested during period	Exercised	Lapsed	Closing balance 25/09/10 or earlier leaving date as stated	Weighted average option price (p)	Earliest exercise date	Last expiry date
Adam Fowle									
	24/05/05	9,199	–	–	–	9,199	326.10	–	24/05/15
	24/05/05	110,971	–	–	–	110,971	326.10	–	24/05/15
	25/06/08*	6,283	–	–	–	6,283	259.00	01/10/13	31/03/14
Total		126,453				126,453			
Former Director						31/08/10			
Jeremy Townsend									
	23/06/05	9,077	–	–	–	9,077	330.50	–	01/09/10
	23/06/05	74,130	–	–	–	74,130	330.50	–	01/09/10
	24/06/09*	4,630	–	–	–	4,630	196.00	–	01/09/10
Total		87,837				87,837			

* Options granted under the Company's Sharesave Plan

1. The interests of Jeremy Townsend are shown as at the date of his cessation of employment with the Company, 31 August 2010.

2. All of Jeremy Townsend's outstanding options lapsed on 1 September 2010.

No options were exercised by the Executive Directors during the year, therefore the potential total gross gain made in the year was nil (2009 £4,429).

Options granted under the EXSOP are exercisable between 27 May 2006 and 23 May 2015. No grant of EXSOP options has been made since June 2005 and no further grant is intended to be made under this plan. Options previously granted under the EXSOP are no longer subject to performance conditions.

Share Incentive Plan

As at 25 September 2010, or for former Directors as at their date of leaving, the Executive Directors had the following entitlements subject to the rules of the all-employee Share Incentive Plan.

Director	Shares held at 26/09/09	Shares awarded during the year 26/09/09 to 25/09/10	Award date	Market price per share at award (p)	Normal vesting date	Market price per share at normal vesting date (p)	Shares held at 25/09/10 or earlier leaving date as stated
Adam Fowle	224	–	29/06/07	876.00	29/06/10	279.40	224
	1,060	–	30/06/08	209.00	30/06/11	–	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	**2,386**	**1,073**					**3,459**
Former Director							31/08/10
Jeremy Townsend	150	–	29/06/07	876.00	29/06/10	279.40	150
	749	–	30/06/08	209.00	30/06/11	–	749
	882	–	30/06/09	250.25	30/06/12	–	882
	–	795	30/06/10	274.00	30/06/13	–	795
Total	**1,781**	**795**					**2,576**

The closing mid-market share price on the award date of 30 June 2010 was 274.00p.

Following the cessation of Jeremy Townsend's employment with the Group on 31 August 2010 and in accordance with the rules of the Plan, 899 shares awarded between 29 June 2007 and 30 June 2008 were released to him on 22 September 2010. The market value on the date of release was £2,551.36. The balance of 1,677 shares lapsed on the cessation of Jeremy's employment.

The potential total gross gain made in the year by all of the Directors had they sold all their shares when they vested would have been £3,171 (2009 £6,267). The market price per share at the date of grant for those shares which vested during the year ranged from 209p to 876p.

Directors' Pension Benefits
Adam Fowle has elected to receive a cash allowance, being £97,250 (2009 £71,299), in the year to 25 September 2010, in lieu of a Company contribution to the Plan.

The Company contributed £64,976 to the Plan in the period to 31 August 2010 (2009 £67,722) in respect of Jeremy Townsend.

Directors' shareholdings

Ordinary shares of $8\frac{13}{24}$p					
Executive Director	25/09/10	26/09/09	Non-Executive Directors	25/09/10	26/09/09[a]
Adam Fowle	77,927	68,042	John Lovering	150,000	–
			Michael Balfour	100,000	–
			Jeremy Blood	–	–
			Simon Burke	9,828	–
			Sir Tim Lankester	5,271	5,271
			Ron Robson	–	–

[a] Or date of appointment if later

Based on the share price on 25 September 2010 of 301.6p Adam Fowle's shareholding as a multiple of salary as at 25/09/10 was 0.4 times.

The above shareholdings, including the shares held on behalf of the Executive Directors by the trustee of the Company's Share Incentive Plan, are all beneficial interests.

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 25 September 2010 was 301.6p and the range during the year to 25 September 2010 was 234.2p to 337.3p 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 date of the Notice of the Annual General Meeting. The Executive Directors as a group beneficially own less than 0.08% of the Company's shares.

On behalf of the Board

Michael Balfour
Chairman of the Remuneration Committee
22 November 2010

Independent auditors' report to the members of Mitchells & Butlers plc

We have audited the Group financial statements of Mitchells & Butlers plc for the year ended 25 September 2010, 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 auditors' 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 auditors
As explained more fully in the Directors' responsibilities statement set out on page 30, 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 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 (APB'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.

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 25 September 2010 and of its loss for the year 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 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 29, in relation to going concern; and
- the part of the Corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matters
We have reported separately on the parent company financial statements of Mitchells & Butlers plc for the year ended 25 September 2010 and on the information in the Directors' remuneration report that is described as having been audited.

Nigel Meredith
(Senior statutory auditor)
For and on behalf of Ernst & Young LLP
Statutory Auditor
Birmingham
22 November 2010

Group income statement

For the 52 weeks ended 25 September 2010

		2010 52 weeks			2009 52 weeks		
	Notes	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	1,980	–	1,980	1,958	–	1,958
Operating costs before depreciation, amortisation and movements in the valuation of the property portfolio	3,8	(1,531)	–	(1,531)	(1,530)	44	(1,486)
Net profit/(loss) arising on property disposals	8	–	15	15	–	(8)	(8)
EBITDA[b]		449	15	464	428	36	464
Depreciation, amortisation and movements in the valuation of the property portfolio	3,8	(127)	(304)	(431)	(128)	(123)	(251)
Operating profit	2	322	(289)	33	300	(87)	213
Finance costs	8, 9	(153)	–	(153)	(167)	(55)	(222)
Finance revenue	9	–	–	–	1	4	5
Net finance charge from pensions	7, 8	–	(7)	(7)	–	(6)	(6)
Profit/(loss) before tax		169	(296)	(127)	134	(144)	(10)
Tax (expense)/credit	8,10	(48)	91	43	(38)	52	14
Profit/(loss) for the period attributable to equity holders of the parent		121	(205)	(84)	96	(92)	4
Earnings/(loss) per ordinary share							
Basic	11	29.7p		(20.6)p	23.6p		1.0p
Diluted	11	29.4p		(20.6)p	23.5p		1.0p

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 60 to 98 form an integral part of these financial statements.

Group statement of comprehensive income

For the 52 weeks ended 25 September 2010

	Notes	2010 52 weeks £m	2009 52 weeks £m
(Loss)/profit for the period		(84)	4
Other comprehensive income:			
Unrealised gain on revaluation of the property portfolio	13	69	17
Actuarial losses on defined benefit pension schemes	7	(43)	(174)
Movement in irrecoverable element of potential future pension surplus	7	(13)	–
Exchange differences on translation of foreign operations		(1)	1
Cash flow hedges:			
– Losses arising during the period	19	(131)	(88)
– Less: reclassification adjustments for gains/(losses) included in profit or loss	19	47	(11)
Other comprehensive loss		(72)	(255)
Tax relating to items of other comprehensive loss	10	37	65
Other comprehensive loss after tax		(35)	(190)
Total comprehensive loss for the period attributable to owners of the parent		(119)	(186)

The notes on pages 60 to 98 form an integral part of these financial statements.

Group balance sheet

25 September 2010

	Notes	2010 £m	2009 £m
ASSETS			
Other intangible assets	12	1	1
Property, plant and equipment	13	3,693	4,461
Lease premiums		8	10
Deferred tax asset	20	149	87
Derivative financial instruments	19	11	6
Total non-current assets		3,862	4,565
Inventories	14	25	38
Trade and other receivables	15	65	40
Cash collateral deposits	26	–	2
Cash and cash equivalents	26	227	105
Total current assets		317	185
Assets held for sale	16	434	19
Total assets		4,613	4,769
LIABILITIES			
Borrowings	18	(136)	(59)
Derivative financial instruments	19	(47)	(50)
Trade and other payables	17	(302)	(270)
Current tax liabilities	10	(8)	(1)
Total current liabilities		(493)	(380)
Borrowings	18	(2,409)	(2,660)
Derivative financial instruments	19	(149)	(60)
Other payables	17	(12)	–
Pension liabilities	7	(199)	(130)
Deferred tax liabilities	20	(464)	(542)
Provisions	21	(6)	–
Total non-current liabilities		(3,239)	(3,392)
Total liabilities		(3,732)	(3,772)
Net assets attributable to owners of the parent		881	997
EQUITY			
Called up share capital	22	35	35
Share premium account	24	20	17
Capital redemption reserve	24	3	3
Revaluation reserve	24	747	703
Own shares held	24	(8)	(2)
Hedging reserve	24	(149)	(87)
Translation reserve	24	12	13
Retained earnings	24	221	315
Total equity		881	997

The notes on pages 60 to 98 form an integral part of these financial statements.

Signed on behalf of the Board
Adam Fowle
Tim Jones
22 November 2010

Group cash flow statement

For the 52 weeks ended 25 September 2010

	Notes	2010 52 weeks £m	2009 52 weeks £m
Cash flow from operations	25	457	426
Interest paid		(147)	(161)
Interest received		–	1
Tax (paid)/received		(8)	21
Exceptional interest on tax credits		–	4
VAT refund received including interest	17	12	–
Net cash from operating activities		314	291
Investing activities			
Purchases of property, plant and equipment		(136)	(128)
Purchases of intangibles (computer software)		(2)	(1)
Proceeds from sale of property, plant and equipment		111	31
Proceeds from disposal of assets held for sale		19	41
Transfers from cash collateral deposits		2	–
Net cash used in investing activities		(6)	(57)
Financing activities			
Issue of ordinary share capital		3	4
Purchase of own shares		(6)	–
Repayment of principal in respect of securitised debt	18	(46)	(45)
Repayment of principal in respect of other borrowings		(136)	(120)
Expenditure associated with refinancing		–	(2)
Derivative financial instruments closure costs	8	–	(95)
Net cash used in financing activities		(185)	(258)
Net increase/(decrease) in cash and cash equivalents	27	123	(24)
Cash and cash equivalents at the beginning of the financial period		105	129
Cash and cash equivalents at the end of the financial period[a]		228	105

[a] Cash and cash equivalents at the end of the financial period of £228m (2009 £105m) comprise £227m (2009 £105m) cash and cash equivalents and £1m (2009 £nil) 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 60 to 98 form an integral part of these financial statements.

Group statement of changes in equity

For the 52 weeks ended 25 September 2010

	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 27 September 2008	34	14	3	697	(3)	(16)	12	434	1,175
Profit for the period	–	–	–	–	–	–	–	4	4
Other comprehensive income/(loss)	–	–	–	14	–	(71)	1	(134)	(190)
Total comprehensive income/(loss)	–	–	–	14	–	(71)	1	(130)	(186)
Share capital issued	1	3	–	–	–	–	–	–	4
Release of own shares	–	–	–	–	1	–	–	(1)	–
Credit in respect of share-based payments	–	–	–	–	–	–	–	3	3
Revaluation reserve realised on disposal of properties	–	–	–	(8)	–	–	–	8	–
Tax on share-based payments taken directly to equity	–	–	–	–	–	–	–	1	1
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)	(30)	(35)
Total comprehensive income/(loss)	–	–	–	58	–	(62)	(1)	(114)	(119)
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	221	881

The notes on pages 60 to 98 form an integral part of these financial statements.

1. General information

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 its freehold and long leasehold land and buildings to fair value, for accounting purposes, which it reviews at least annually. Short leasehold properties, fixtures and fittings are held at cost or deemed cost on transition to IFRS, 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, although certain exemptions to the retrospective application of IFRS have been made by the Group in accordance with IFRS 1 'First-time Adoption of International Financial Reporting Standards'.

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.

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.

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 areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, include property valuations, asset impairments, assets held for sale, pensions and tax. See 'Property, plant and equipment', 'Employee benefits', 'Assets held for sale and disposal groups', and 'Tax' below (see also Risks and uncertainties on pages 20 to 23) for further information regarding these areas. Actual results may differ from estimates.

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.

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.

Goodwill denominated in foreign currencies is translated into sterling at each balance sheet date and any movements are accounted for as set out under 'Foreign currencies'.

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

Freehold and long leasehold land and buildings are revalued to fair value, for accounting purposes. Short leasehold properties, fixtures and fittings are held at deemed cost on transition to IFRS 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. 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 in other comprehensive income (in the revaluation reserve) to the extent that a surplus exists against the same asset.

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.

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.

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 reduction in the rental expense over the lease term.

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.

1. General information continued

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. Work in progress is in respect of property development activities and includes the direct costs of the developments and associated professional fees.

Financial instruments

i Trade and other receivables

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

ii 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 consists 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.

iii Trade and other payables

Trade and other payables are recognised at original cost.

iv 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.

v 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 remeasured 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 directly 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.

vi Equity instruments

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 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.

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. 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.

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, the determination of which is significant to the balance sheet valuation. These are set out and discussed in note 7 'Pensions'. 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 generally 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.

The amendment to IFRS 2 'Share-based Payment' which clarifies the terms 'vesting conditions' and 'cancellations' has been adopted by the Group. This did not have any material impact on the Group.

The Group has taken advantage of the transitional provisions of IFRS 2 'Share- based Payment' and applied its requirements to only those awards granted after 7 November 2002 that had not vested before 1 January 2005.

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.

1. General information continued

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.

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. 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. IAS 19 'Employee Benefits' requires the pension scheme liabilities to be discounted to a present value, using a corporate bond rate. The net pensions finance charge consists of the net of the movement in this discount and the notional return expected to be earned on the pension scheme assets.

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.

IAS 1 (Revised) – became effective for periods beginning on or after 1 January 2009. Its main impact has been to introduce a statement of comprehensive income in place of the statement of recognised income and expense previously presented by the Group.

IFRIC 14 'IAS 19 – The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' – became effective for periods beginning on or after 1 January 2009. This provides guidance on the amount of surplus in a defined benefit pension scheme that can be recognised as an asset under IAS 19 'Employee Benefits' as well as explaining how the pension asset or liability is impacted by the Company's minimum funding requirement. Further detail on this is provided in note 7 'Pensions'.

IFRS 2 Share-based Payment vesting conditions and cancellations (amendments) – became effective for periods beginning on or after 1 January 2009 and clarifies the terms 'vesting conditions' and 'cancellations' used in the standard. These amendments have had no material impact on the Group.

IFRS 3 'Business Combinations (revised)' became effective on 1 July 2009 and requires acquisition costs to be expensed rather than capitalised as part of the cost of an investment. This change has had no material impact on the Group as it has not made any business acquisitions during either the current or prior period.

IFRS 7 (Amendment) 'Financial Instruments: Disclosure' – is effective for periods beginning on or after 1 January 2009 and requires enhanced disclosure of fair value measurements and liquidity risks relating to financial instruments. These amendments have had no material impact on the Group.

IFRS 8 Operating Segments – replaces IAS 14 and is effective for periods beginning on or after 1 January 2009. It requires segment information to be presented on the same basis as that used for internal reporting purposes. It is anticipated that the Group will amend the presentation of its segment information in the next financial year to show the results of the operating and property businesses separately. Further detail on this is provided in note 2 'Segmental analysis'.

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (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.

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, but is not expected to have any material impact.

Amendments to IFRIC 14 Prepayments of a minimum funding requirement – permits entities which make an early payment of a contribution in order to cover minimum funding requirements, to reflect such payments as an asset. The Group will adopt this amendment in 2011/12, but does not anticipate that it will have a material impact.

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. This will be effective for the Group in 2010/11 but is not expected to have any material impact.

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 (2009 £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 = €1.17 (2009 £1 = €1.09) and £1 = $1.58 (2009 £1 = $1.60) respectively.

2. Segmental analysis

IFRS 8 has been adopted in these financial statements for the first time and requires operating segments to be based on the Group's internal reporting to its Chief Operating Decision Maker ('CODM'), which the Group regards to be the Executive Board. The adoption of IFRS 8 has resulted in a revision to the Group's reportable segments. The Group has identified its individual brands and formats as its operating segments since key decisions are made at this level. With the exception of the operating segments discussed below the relevant IFRS 8 aggregation criteria have been met due to them sharing common characteristics such as economic characteristics, similar product offerings, and similar types of customer, and they have therefore been reported as one segment. This incorporates all of its managed UK pub restaurants which derive the majority of their revenues from food and beverage sales.

The Group has concluded that its Lodge business, the majority of which has been sold during the period, its German pub restaurant business and its property development business, Standard Commercial Property Developments Limited (SCPD), do not meet, either individually or collectively, the quantitative thresholds to constitute reportable segments as defined by IFRS 8. Rather than being shown as 'all other segments' they have been combined within the pub restaurant segment due to their non-material nature and as a result only one segment has been disclosed below for the whole Group. The CODM uses operating profit before exceptional items and other adjustments, calculated in accordance with IFRS, to measure the results of the reportable segment and the results below have been disclosed on this basis.

The Group reported on 24 March 2010 that in future it intends 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. As this change was not reflected in the management reporting of the business during the period, the Group has not yet updated its segment disclosures to reflect this proposed change. Further information on this is provided in the financial review on pages 16 to 18.

	2010 52 weeks £m	2009 52 weeks £m
Revenue		
Sales to third-parties	1,980	1,958
Operating profit		
Operating profit before depreciation, amortisation, exceptional items and other adjustments	449	428
Depreciation and amortisation	(127)	(128)
Operating profit before exceptional items and other adjustments	322	300
Exceptional items and other adjustments	(289)	(87)
Operating profit	33	213
Net finance costs	(160)	(223)
Tax credit	43	14
(Loss)/profit for the financial period	(84)	4

	2010 £m	2009 £m
Net operating assets[a]	3,904	4,298
Add back:		
Deferred tax asset	149	87
Derivative financial instruments (non-current asset)	11	6
Cash collateral deposits	–	2
Cash and cash equivalents	227	105
Cash within assets held for sale	1	–
Non-operating receivable	1	1
Deduct:		
Trade and other payables	314	270
Provisions	6	–
Total assets	4,613	4,769

[a] Includes balances relating to intangibles, property, plant and equipment, lease premiums, inventories, trade and other receivables (excluding £1m (2009 £1m) of non-operating receivable), assets held for sale, trade and other payables and provisions

2. Segmental analysis continued

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 customers and assets.

	UK		Germany		Total	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Revenue – sales to third parties	1,933	1,911	47	47	1,980	1,958
Segment non-current assets [a]	3,698	4,465	4	7	3,702	4,472
Capital expenditure	137	121	1	1	138	122

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

3. Operating costs

	2010 52 weeks £m	2009 52 weeks £m
Raw materials and consumables	578	589
Changes in inventory of finished goods and work in progress	9	1
Employee costs (note 5)	532	473
Hire of plant and machinery	27	31
Operating lease rentals:		
– minimum lease payments	52	47
– contingent rents	1	1
Other costs	332	344
	1,531	1,486
Depreciation of property, plant and equipment (note 13)	124	124
Amortisation of intangible assets (note 12)	2	3
Amortisation of lease premiums	1	1
Total movement in the valuation of the property portfolio (note 8)	304	123
Depreciation, amortisation and movement in the valuation of the property portfolio	431	251
	1,962	1,737

4. Auditors' remuneration

	2010 52 weeks £m	2009 52 weeks £m
Audit of the financial statements	0.1	0.1
Audit of the Company's subsidiaries	0.3	0.4
	0.4	0.5
Other fees to auditors:		
– corporate finance services	0.7	–
	0.7	–

The auditors' fee for the audit of the parent company was £22,000 (2009 £22,000).

Substantially all of the auditors' remuneration was paid in the UK.

5. Employees and Directors

	2010 52 weeks £m	2009 52 weeks £m
Costs		
Wages and salaries	481	467
Share-based payments (note 6)	4	3
Total wages and salaries	485	470
Social security costs	36	35
Pensions (note 7)	11	12
Exceptional pension credit (note 7)	–	(44)
	532	473

The average number of employees, including part-time employees, in the year was 44,600 (2009 42,023).

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 40 to 53.

6. Share-based payments

The expense recognised for share-based payments in the year is £4m (2009 £3m) 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.

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 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 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.

No award was granted relating to the 2006/07 or 2008/09 bonus year due to the losses suffered by the Company from the hedge closures in these periods. For the award made in relation to the 2007/08 bonus year participants received one matching share award for every bonus share; matching shares and bonus shares vest three years after the award date. Matching shares in respect of this award will only be released in full if the Group's average adjusted earnings per share (including net pension income) over the three year performance period ending 24 September 2011, exceeds the growth in the UK Retail Price Index for the same period by an amount equivalent to at least 27%.

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

6. Share-based payments continued

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 Performance Restricted Share Plan.

Participants have been awarded a conditional right to receive Mitchells & Butlers plc shares with a value determined by their percentage of the LTIP pool; 70.75% of the total pool was allocated on 30 July 2010. 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 ('EPS') 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 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 EPS 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 Performance Restricted Share Plan are anticipated during the three year LTIP performance period.

Executive Share Option Plan

The grant of options under the Executive Share Option Plan 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 25 September 2010, 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 25 September 2010, is 28 May 2012.

Further details of the above schemes, including the changes to the Performance Restricted Share Plan and Short-Term Deferred Incentive Plan, which have been implemented this year, and details relating to the new LTIP, are included in the Report on Directors' remuneration on pages 40 to 53.

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:

2010	Long-Term Incentive Plan	Performance Restricted Share Plan	Sharesave Plan
Valuation model	Monte Carlo	Monte Carlo Simulation and Binomial	Black-Scholes
Weighted average share price	311.9p[a]	252.5p	274.0p
Exercise price	–[a]	–[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

2009	Performance Restricted Share Plan	Sharesave Plan
Valuation model	Monte Carlo Simulation and Binomial	Black-Scholes
Weighted average share price	163.3p	250.3p
Exercise price	–[b]	196.0p
Expected dividend yield	–[d]	1.33%[c]
Risk-free interest rate	3.92%	3.73%
Volatility[e]	46.9%	49.3%
Expected life (years)[f]	3.00	4.20

[a] The share price for the LTIP multiplied by the number of shares in issue on award date gives the market capitalisation at date of award of £1,275m. There is no exercise price associated with the LTIP.
[b] The exercise price relating to the Performance Restricted Share Plan 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 Chairman's Statement on page 3.
[d] The expected dividend yield input for the grant of Performance Restricted Share Plan 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 Short-Term Deferred Incentive Plan 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 Share Incentive Plan 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 Performance Restricted Share Plan and the Short-Term Deferred Incentive Plan 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.

6. Share-based payments continued

Movements in the awards and options outstanding under these schemes (excluding the LTIP) for the years ended 25 September 2010 and 26 September 2009 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 27 September 2008	572	7,705	1,071
Granted	63	4,578	397
Exercised	(163)	(996)	(102)
Lapsed	(268)	(2,616)	(78)
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**
Fair value of options granted during the period (pence)[b]			
At 25 September 2010	–[a]	151.6[c]	274.0
At 26 September 2009	152.0	83.7[c]	248.0
Weighted average remaining contract life (years)			
At 25 September 2010	1.2	3.0	–[d]
At 26 September 2009	0.6	3.5	–[d]

[a] There was no grant under the Short-Term Deferred Incentive Plan during the period 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 Performance Restricted Share Plan (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 27 September 2008	6,969	281.0	4,625	298.8	1,456	265.0
Granted	–	–	2,650	196.0	–	–
Exercised	(798)	247.4	(907)	186.7	(48)	259.7
Lapsed	(1,172)	289.7	(1,577)[a]	310.0	(596)	269.6
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
Options exercisable						
At 25 September 2010	3,085	291.8	–	–	526	264.9
At 26 September 2009	4,999	284.3	36	251.6	812	261.9
Fair value of options granted during the period[b] (pence)						
At 25 September 2010		–		75.7[b]		–
At 26 September 2009		–		79.9[b]		–
Range of prices (pence) of options outstanding:						
At 25 September 2010		219.0 – 326.1		196.0 – 711.0		259.7 – 266.7
At 26 September 2009		219.0 – 330.5		169.0 – 711.0		214.5 – 266.7

[a] The number of lapsed shares in the period includes 428,378 (2009 1,027,503) cancellations

[b] Weighted average fair value based on the date of grant has been shown for the Sharesave Plan. The 2009 fair value has been restated for the effect of the amendment to IFRS 2 'Share-based Payment' which clarified the terms 'vesting conditions' and 'cancellations'.

The weighted average share price during the period was 286.3p (2009 221.5p).

6. Share-based payments continued

Summarised information about options outstanding at 25 September 2010 under the share option schemes is as follows:

	Options outstanding			Options exercisable		
Range of exercise prices (pence)	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]	8,729	3.0	–[a]	112	0.5	–[a]
Executive Share Option Plan						
219.0	326	2.7	219.0	326	2.7	219.0
252.5	965	3.7	252.5	965	3.7	252.5
326.1	1,794	4.7	326.1	1,794	4.7	326.1
	3,085	4.2	291.8	3,085	4.2	291.8
Sharesave Plan						
258.5	122	0.5	258.5	–	–	–
401.0	66	1.5	401.0	–	–	–
711.0	231	0.9	711.0	–	–	–
259.0	910	2.2	259.0	–	–	–
196.0	2,206	3.2	196.0	–	–	–
257.0	990	4.1	257.0	–	–	–
	4,525	3.0	253.0	–	–	–
Rolled-over options						
259.7 to 266.7	526	1.3	264.9	526	1.3	264.9

[a] The exercise price relating to the Performance Restricted Share Plan 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. 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.

The Company has concluded a process of consultation and review of proposals to close the defined benefit plans to future accrual with the Trustees on 2 November 2010. The ceasing of future accrual will be effective from 13 March 2011, when the Company intends to implement a revised defined contribution benefit structure.

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 25 September 2010. Scheme assets are stated at market value at 25 September 2010 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 £(143)m (2009 £(130)m, 2008 £(23)m) – as set out on page 74.

The total pension liability of £(199)m (2009 £(130)m, 2008 £(23)m) is inclusive of an amount of £(56)m in respect of the application of IFRIC 14 in the current period, see 'Amounts recognised in respect of defined benefit schemes' below.

Pension costs are assessed in accordance with the advice of independent qualified actuaries. As the defined benefit sections of the pension plans are now closed to new members, the current service cost as calculated under the projected unit method will increase as members approach retirement.

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

	2010	2009	2008	2007	2006
Wages and salaries increases	2.0%[a]	2.0%[a]	5.0%[b]	4.9%[b]	4.4%
Pensions increases	3.3%	3.3%	3.5%	3.4%	2.9%
Discount rate	5.1%	5.5%	6.5%	5.9%	5.0%
Inflation rate	3.3%	3.3%	3.5%	3.4%	2.9%

[a] Reflects the impact of pension changes introduced during the prior period
[b] Represents the assumption for MABPP members with the 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 £30m (2009 £25m), with no material impact on the income statement charge.

Mortality assumptions
The mortality assumptions have been updated following the latest full actuarial valuation 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. The 2009 mortality assumptions were based on the PA92 'year of birth' standard tables. A summary of the average life expectancies assumed is as follows:

	2010		2009	
	Main plan years	Exec plan years	Main plan years	Exec plan years
Male member aged 65 (current life expectancy)	20.2	24.5	19.4	23.6
Male member aged 45 (life expectancy at 65)	22.9	26.3	21.2	24.8
Female member aged 65 (current life expectancy)	23.0	25.9	22.2	26.5
Female member aged 45 (life expectancy at 65)	25.7	27.9	24.0	27.7

Amounts recognised in respect of defined benefit schemes
The long-term rates of return on assets at 25 September 2010 shown below form the basis of the calculation of the expected return on pension scheme assets for the 2011 financial year. The 2009 rates shown are used in calculating the 2010 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 was 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 5.1% (2009 5.5%, 2008 6.1%). The actual investment return achieved on the scheme assets over the year was 11.8% (2009 7.9%, 2008 (5.4)%), which represented a gain of £135m (2009 gain of £84m, 2008 loss of £71m).

7. Pensions continued

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:

	2010		2009		2008	
	Long-term rates of return expected %	Value £m	Long-term rates of return expected %	Value £m	Long-term rates of return expected %	Value £m
Equities	7.4	464	7.5	467	8.2	359
Bonds	4.1	935	4.5	800	5.3	814
Property	7.4	6	7.5	13	8.2	38
Fair value of assets		1,405		1,280		1,211
Present value of scheme liabilities		(1,548)		(1,410)		(1,234)
Deficit in the schemes recognised as a liability in the balance sheet		(143)		(130)		(23)
Irrecoverable element of potential future pension surplus[a]		(56)		–		–
Net liability		(199)		(130)		(23)
Associated deferred tax asset						
Deferred tax relating to IAS 19 valuation		39		36		6
Deferred tax on irrecoverable element of potential future pension surplus[a]		43		–		–
Total deferred tax asset (note 20)		82		36		6

[a] The irrecoverable element of potential future pension surplus represents the impact of IFRIC14. During the period the Group has agreed a 10 year deficit funding plan with the Trustees, for which the present value of the future agreed funding payments exceeds the IAS19 liability in respect of the schemes. This would, when paid, give rise to a surplus as measured under IFRS and therefore a provision is recognised for any part of the surplus that would not be recoverable. Any surplus ultimately repaid by the Trustees would currently be subject to a 35% tax charge deducted at source. Consequently, a liability for £(56)m is recognised at the balance sheet date along with the associated deferred tax asset of £43m with the net of these being a £13m decrease in the Group statement of comprehensive income. There is no impact on the Group income statement or earnings per share. The implementation of IFRIC 14 has had no impact on the prior periods.

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:

Group income statement	2010 £m	2009 £m	2008 £m
Operating profit:			
Current service cost (defined benefit plans)	(8)	(10)	(13)
Current service cost (defined contribution plans)	(3)	(2)	(2)
Exceptional pension credit	–	44	–
(Charge)/credit to operating profit	(11)	32	(15)
Finance income:			
Expected return on pension scheme assets	69	73	79
Interest on pension scheme liabilities	(76)	(79)	(76)
Net finance (charge)/income in respect of pensions	(7)	(6)	3
Total (charge)/credit	(18)	26	(12)

Group statement of comprehensive income	2010 £m	2009 £m	2008 £m
Actual return less expected return on pension scheme assets	65	10	(150)
Changes in assumptions underlying the present value of the scheme liabilities	(108)	(184)	115
Actuarial loss recognised	(43)	(174)	(35)
Movement in irrecoverable element of potential future pension surplus	(13)	–	–
Total loss	(56)	(174)	(35)

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

Group statement of comprehensive income	Scheme assets 2010 £m	2009 £m	2008 £m
Fair value of scheme assets at beginning of period	1,280	1,211	1,292
Expected return on plan assets	69	73	79
Employee contributions	1	1	3
Employer contributions	45	39	40
Benefits paid	(55)	(54)	(53)
Actuarial gain/(loss) recognised	65	10	(150)
At end of period	1,405	1,280	1,211

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

	Defined benefit obligation 2010 £m	2009 £m	2008 £m
Present value of defined benefit obligation at beginning of period	(1,410)	(1,234)	(1,310)
Current service cost	(8)	(10)	(13)
Exceptional pension credit (see note 8)	–	44	–
Interest cost on benefit obligations	(76)	(79)	(76)
Employee contributions	(1)	(1)	(3)
Benefits paid	55	54	53
Actuarial (loss)/gain recognised	(108)	(184)	115
At end of period[a]	(1,548)	(1,410)	(1,234)

[a] The defined benefit obligation comprises £(16)m (2009 £(15)m, 2008 £(18)m) relating to the MABETUS unfunded plan and £(1,532)m (2009 £(1,395)m, 2008 £(1,216)m) relating to the MABPP and MABEPP funded plans

History of experience gains and losses:	2010	2009	2008	2007	2006
Difference between the expected and actual return on scheme assets					
Amount (£m)	65	10	(150)	24	43
Percentage of scheme assets	5%	1%	(12)%	2%	4%
Experience gains/(losses) on scheme liabilities					
Amount (£m)	34	–	(2)	(16)	–
Percentage of the present value of the scheme liabilities	2%	–	0%	(1)%	–
Total amount recognised in the Group statement of comprehensive income					
Amount (£m)	(43)	(174)	(35)	33	27
Percentage of the present value of the scheme liabilities	(3)%	(12)%	(3)%	3%	2%

The cumulative amount of actuarial gains and losses recognised since 26 September 2004 in the Group statement of comprehensive income is a £199m loss (2009 £156m loss, 2008 £18m gain). 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 is that the Group has 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 £32m during the current financial year and will make further additional contributions of £40m in each of the financial years from 2011 to 2019 and £20m in the financial year 2020.

7. Pensions continued

In the 52 weeks ended 25 September 2010, the Group paid regular contributions of £13m (2009 £15m, 2008 £16m) and additional contributions of £32m (2009 £24m, 2008 £24m) in respect of the defined benefit arrangements. In addition the Group paid £3m (2009 £2m, 2008 £2m) in respect of the defined contribution arrangements.

Future employer contribution rates to the defined benefit arrangements for the 2011 financial year are to be determined following conclusion of the consultation process. Employer contribution rates to the defined benefit arrangements for the 2011 financial year are currently expected to be 19.9% for the MABPP and 36.6% for the MABEPP. Based on the current future contribution rates, it is estimated that total contributions in the 52 weeks ended 24 September 2011 will be £53m, comprising regular contributions of £13m, including £3m payable in respect of the defined contribution arrangements and additional contributions of £40m.

8. Exceptional items and other adjustments

	Notes	2010 52 weeks £m	2009 52 weeks £m
Operating exceptional items			
Exceptional pension credit (note 7)	a	–	44
Profits on disposal of properties		26	10
Losses on disposal of properties		(11)	(18)
Net profit/(loss) arising on property disposals		15	(8)
Movements in the valuation of the property portfolio			
– Impairment arising from the revaluation	b	(256)	(118)
– Other impairment	b	(23)	–
– Impairment arising on classification of assets held for sale	b	(25)	(5)
Total movements in the valuation of the property portfolio		(304)	(123)
Total operating exceptional items		(289)	(87)
Exceptional finance costs and revenue			
Total cost of derivative financial instruments closed out in the prior period	c	–	(95)
Less: amounts charged against profit in prior periods	c	–	40
Movement in fair value of derivative financial instruments closed out in the prior period (note 9)	c	–	(55)
Exceptional interest on tax credits (note 9)	d	–	4
Total exceptional finance costs		–	(51)
Net pensions finance charge (note 7)	e	(7)	(6)
Other adjustments	e	(7)	(6)
Total exceptional items and other adjustments before tax		(296)	(144)
Tax credit relating to above items		77	36
Exceptional tax released in respect of prior years	d	9	16
Tax credit in respect of change in tax legislation	f	5	–
		91	52
Total exceptional items and other adjustments after tax		(205)	(92)

[a] Relates to the impact of pension changes introduced in the prior period
[b] Movements in the valuation of the property portfolio includes £256m of write down arising from the Group's revaluation of its pub estate, £23m of other impairment on assets where their carrying values exceed their recoverable amount and £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. Of the £25m of impairment, £18m relates to the 333 non-core pubs held in the disposal group (see note 16).
[c] Total cost of derivative financial instruments closed out in the prior period represents the total cost of terminating the derivative financial instruments in May 2009 (see note 19 for details). Amounts charged against profit in prior periods are the movements in the values of these instruments charged to profit through exceptional finance costs. Deducting these gives the movement in the fair value of the derivatives closed out, charged against profit.
[d] Represents the release of provisions relating to tax matters which have been settled principally relating to disposals. In addition £4m of interest arising on the settlement of prior year tax matters was received in the prior period.
[e] The net pensions finance charge is a non-cash adjustment which is excluded from adjusted profit
[f] A deferred tax credit has been recognised in the year following the enactment of legislation on 21 July 2010 which lowers the UK standard rate of corporation tax from 28% to 27% with effect from 1 April 2011

9. Finance costs and revenue

	2010 52 weeks £m	2009 52 weeks £m
Finance costs		
Securitised and other debt	(153)	(167)
Exceptional finance costs (note 8)		
– movement in fair value of derivative financial instruments closed out in the prior period	–	(55)
	(153)	(222)
Finance revenue		
Interest receivable	–	1
Exceptional interest on tax credits (note 8)	–	4
	–	5
Net finance charge in respect of pensions (note 7)	(7)	(6)

10. Tax credit

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

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

10. Tax credit continued

Reconciliation of the total tax charge

The tax credit in the income statement for the year is higher (2009 higher) than the standard rate of corporation tax in the UK of 28% (2009 28%). The differences are reconciled below:

	2010 52 weeks £m	2009 52 weeks £m
Loss before tax	(127)	(10)
Accounting loss multiplied by the UK standard rate of corporation tax of 28% (2009 28%)	(35)	(3)
Expenses not deductible for tax purposes	6	5
Adjustments in respect of prior years	(9)	(16)
Tax credit in respect of change in tax rate	(5)	–
Total tax credit reported in the income statement	(43)	(14)

Factors which may affect future tax charges

A number of changes to the UK Corporation Tax system were announced in the June 2010 Budget Statement. The Finance (No.2) Act 2010 was enacted in July 2010 and reduces the main rate of corporation tax from 28% to 27% from 1 April 2011. The effect of this change has been reflected in the closing deferred tax balance shown in note 20.

Further reductions are proposed to be enacted separately each year with the aim of reducing the rate by 1% per annum to 24% by 1 April 2014. In addition, proposals were put forward to reduce the rate of capital allowances from April 2012. None of these further changes had been substantively enacted at the balance sheet date and therefore the effects are not included in these financial statements. We estimate that these further changes in total, if enacted as proposed, could increase 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 25 September 2010 of approximately £30m 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 EPS, the weighted average number of ordinary shares is adjusted to assume conversion of all dilutive potential ordinary shares.

Adjusted EPS amounts are presented before exceptional items (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.

	(Loss)/profit £m	Basic EPS pence per ordinary share	Diluted EPS pence per ordinary share
52 weeks ended 25 September 2010:			
Loss for the period	(84)	(20.6)p	(20.6)p[a]
Exceptional items, net of tax	200	49.1p	48.7p
Net pensions finance charge, net of tax	5	1.2p	1.2p
Adjusted profit/EPS	121	29.7p	29.4p
52 weeks ended 26 September 2009:			
Profit for the period	4	1.0p	1.0p
Exceptional items, net of tax	88	21.7p	21.6p
Net pensions finance income, net of tax	4	0.9p	0.9p
Adjusted profit/EPS	96	23.6p	23.5p

[a] The 2010 diluted EPS 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:

	2010 52 weeks m	2009 52 weeks m
For basic EPS calculations	407	406
Effect of dilutive potential ordinary shares:		
Contingently issuable shares	3	1
Other share options	1	1
For diluted EPS calculations	411	408

At 25 September 2010, 2,990,654 (2009 5,483,614) 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. Other intangible assets

	Computer software £m
Cost	
At 27 September 2008	10
Additions	1
Disposals	(6)
At 26 September 2009	5
Additions	2
Disposals	–
At 25 September 2010	7
Accumulated amortisation	
At 27 September 2008	7
Provided during the year	3
Disposals	(6)
At 26 September 2009	4
Provided during the year	2
Disposals	–
At 25 September 2010	6
Net book value	
At 25 September 2010	1
At 26 September 2009	1

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

13. Property, plant and equipment

	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
Cost or valuation			
At 27 September 2008	3,921	912	4,833
Exchange differences	1	3	4
Additions	48	73	121
Revaluation[a]	(122)	–	(122)
Disposals[b]	(37)	(52)	(89)
Impairment arising on classification of non-current assets held for sale	(3)	(2)	(5)
Classified as held for sale	59	22	81
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)
Classified as held for sale	(399)	(183)	(582)
At 25 September 2010	3,188	720	3,908
Depreciation			
At 27 September 2008	65	223	288
Exchange differences	1	3	4
Provided during the year	25	99	124
Disposals[b]	(12)	(47)	(59)
Classified as held for sale	14	12	26
Revaluation[a]	(21)	–	(21)
At 26 September 2009	72	290	362
Exchange differences	(1)	(2)	(3)
Provided during the year	23	101	124
Disposals[b]	(27)	(70)	(97)
Classified as held for sale	(42)	(116)	(158)
Revaluation[a]	(13)	–	(13)
At 25 September 2010	12	203	215
Net book value			
At 25 September 2010	3,176	517	3,693
At 26 September 2009	3,795	666	4,461
At 27 September 2008	3,856	689	4,545

[a] The net book value decrease due to revaluation of £(210)m (2009 £(101)m) comprises a loss in relation to revaluation and impairment of £(279)m (2009 £(118)m), see note 8, net of a revaluation reserve credit of £69m (2009 £17m) 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 £22m (2009 £21m) 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 land and buildings, for accounting purposes, was adopted on 29 September 2007. Short leasehold properties and fixtures, fittings and equipment are held at deemed cost at transition to IFRS 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 land and buildings were valued at market value, as at 25 September 2010 and 26 September 2009 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 restaurant could materially impact the valuation of the freehold and long leasehold land and buildings. It is estimated that a £1 change in the EBITDA of the freehold and long leasehold land and buildings would generate 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. The £23m of other impairment, included within revaluation movements above, is the result of comparing the carrying value to a value in use calculation, using a discount rate of 9% applied to the expected cash flows over the remaining life of the lease.

Included within property, plant and equipment are assets with a net book value of £3,497m (2009 £3,787m), which are pledged as security for the securitisation debt and over which there are certain restrictions on title.

On 15 July 2010 the Group announced the disposal of the majority of its lodge business. On 10 August 2010 the disposal of 39 of the 52 lodges was completed, along with the sale and leaseback of six pubs, at a book value of £58m, for which a gross consideration of £72m was received and costs of £6m incurred. Four lodges and one pub included in this transaction have been deferred and are included within assets held for sale as at 25 September 2010, along with the remaining nine lodges and one associated pub that were not included in the above transaction.

On 9 August 2010 the Group announced the disposal of Hollywood Bowl for a gross cash consideration of £27m. On 13 August 2010 the disposal of 20 leasehold assets was completed and is included within disposals above at a net book value of £32m. The remaining four freehold assets are included within assets held for sale as at 25 September 2010.

Finance leases

The net book value of fixtures, fittings and equipment includes £2m (2009 £3m) 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:

	2010 £m	2009 £m
Freehold	2,842	3,360
Leasehold:		
– unexpired term of more than 50 years	246	298
– unexpired term of 50 years or less	88	137
	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 £2,783m and £194m (2009 £3,328m and £245m 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 25 September 2010 an amount of £9m (2009 £11m) was included in the balance sheet.

14. Inventories

	2010 £m	2009 £m
Work in progress[a]	3	12
Goods held for resale[b]	22	26
	25	38

[a] Work in progress is in respect of property developments. During the period the Group sold development property held at £7m in 2009 for £7m, and recorded a £2m write down on another development property.
[b] Goods held for resale are stated after the transfer of £4m into assets held for sale (see note 16)

15. Trade and other receivables

	2010 £m	2009 £m
Trade receivables	1	1
Other receivables	44	15
Prepayments[a]	20	24
	65	40

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

All amounts fall due within one year.

Trade and other receivables are non-interest bearing.

16. Assets held for sale

	Assets held for sale		Disposal group		Total	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Land and buildings	61	16	300	–	361	16
Fixtures, fittings and equipment	9	3	57	–	66	3
Other assets	–	–	7	–	7	–
Total	70	19	364	–	434	19
Impairment arising on classification as assets held for sale	7	5	18	–	25	5

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. Within this balance are four Bowls and 13 Lodges (including two associated pubs), see note 13 for further details.

The disposal group comprises the package of 333 non-core pubs that the Group announced on 20 August 2010 was to be sold to Stonegate Pub Company Ltd. The sale completed on 14 November 2010 – see note 33. Other assets of £7m comprise prepayments of £2m, inventories of £4m and cash floats of £1m which are being sold as part of the disposal group.

The impairment charge of £25m (2009 £5m) arising on classification as assets held for sale and the disposal group forms part of the total impairment in the income statement. The carrying values included within the disposal group and assets held for sale categories above are stated after this adjustment. The charge against income is shown as 'Impairment arising on classification of non-current assets held for sale' in note 8. The net gain on the disposal of assets held for sale is included within the 'net profit/(loss) arising on property disposals' in note 8.

17. Trade and other payables

	2010 £m	2009 £m
Current		
Trade payables	100	96
Other taxation and social security	66	48
Accrued charges	80	73
Other payables	56	53
	302	270
Non-current		
Other payables[a]	12	–

[a] Non-current other payables comprises an amount held in respect of the Group's gaming machine VAT claim. A decision was released during the period in respect of Rank plc's gaming claim and this latest 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 has lodged an appeal with the European Court of Justice in respect of Rank plc's decision. The Group is holding 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

	2010			2009		
	Current liabilities £m	Non-current liabilities £m	Total £m	Current liabilities £m	Non-current liabilities £m	Total £m
Securitised debt[a,b]	51	2,238	2,289	48	2,283	2,331
Other borrowings[b]	85	170	255	10	376	386
Finance leases (note 29)	–	1	1	1	1	2
Total borrowings	136	2,409	2,545	59	2,660	2,719

[a] Further details of the assets pledged as security against the securitised debt are given on page 81
[b] Stated net of deferred issue costs

Analysis by year of repayment[a]	2010 £m	2009 £m
Due within one year or on demand	136	59
Due between one and two years	235	540
Due between two and five years	826	1,094
Due after five years	1,348	1,026
Total borrowings	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. The analysis by year of repayment in respect of the A1N and A3N securitised loan notes is based on the assumption that the loan notes are currently not expected to be refinanced at their step-up date and are held to maturity.

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 pubs and 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 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[b]	200	10 years
A2	550	Fixed – 5.57%	2003 to 2028	6.01	372	10 years
A3N	250	Floating	2011 to 2028	5.93[b]	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	6.57	200	19 years
C2	50	Floating	2033 to 2034	5.44[b]	50	3 years
D1	110	Floating	2034 to 2036	5.50[b]	110	3 years
	2,555				2,284[c]	

18. Borrowings continued

At 26 September 2009 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 26 September 2009 £m	Expected WAL[a]
A1N	200	Floating	2011 to 2028	5.69[b]	200	1 years
A2	550	Fixed – 5.57%	2003 to 2028	6.01	401	10 years
A3N	250	Floating	2011 to 2028	5.92[b]	250[c]	1 years
A4	170	Floating	2016 to 2028	5.24[b]	170	4 years
AB	325	Floating	2020 to 2032	5.25[b]	325	4 years
B1	350	Fixed – 5.97%	2003 to 2023	6.12	274	7 years
B2	350	Fixed – 6.01%	2015 to 2028	6.12	350	15 years
C1	200	Fixed – 6.47%	2029 to 2030	6.57	200	20 years
C2	50	Floating	2033 to 2034	5.44[b]	50	4 years
D1	110	Floating	2034 to 2036	5.50[b]	110	4 years
	2,555				2,330[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, A3, C2 and D1 loan notes are currently assumed to be refinanced at their step-updates. The A1N and A3N are currently not expected to be refinanced at their step-up date, hence the WAL has been adjusted accordingly, to extend to the end of the repayment period. The margin step-up dates as at 25 September 2010 are set out below.

[b] After the effect of interest rate swaps.

[c] Includes the fair value impact of £(15)m (2009 £(12)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 fully 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	0.18%	December 2010	0.45%
A3N	3 month $ LIBOR	0.18%	December 2010	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%

The overall cash interest rate payable on the loan notes is 5.8% (2009 5.7%) 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 25 September 2010, Mitchells & Butlers Retail Ltd had cash and cash equivalents of £214m (2009 £91m) which were governed by the covenants associated with the securitisation. Of this amount £128m (2009 £15m), 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 trustees and may only be used for certain specified purposes such as capital enhancement expenditure and business acquisitions.

The carrying value of the securitised debt in the Group balance sheet at 25 September 2010 is analysed as follows:

	2010 £m	2009 £m
Principal outstanding at beginning of period	2,342	2,353
Principal repaid during the period	(46)	(45)
Exchange on translation of dollar loan notes	3	34
Principal outstanding at end of period	2,299	2,342
Deferred issue costs	(13)	(15)
Accrued interest	3	4
Carrying value at end of period	2,289	2,331

At 25 September 2010 the Group had the following undrawn committed borrowing facilities:

Undrawn committed borrowing facilities[a]	2010 £m	2009 £m
Unutilised facilities expire:		
Within one year	–	–
Between two and five years	167	167
	167	167

[a] In addition to the undrawn amounts against the medium-term facility (see below), the Group holds an undrawn £295m (2009 £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 6 September 2011.

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. As at 25 September 2010 the Group had drawn an amount of £255m (net of deferred issue costs) against the facility which forms part of the 'Other borrowings' balance (2009 £376m (net of deferred issue costs).

At 25 September 2010 the Group had the following medium-term committed borrowing facilities:

	2010 £m
Level of facilities available:	
At 26 September 2009	550
Scheduled reduction December 2009 – prepaid 30 September 2009	(75)
Scheduled reduction June 2010 – prepaid 2 March 2010	(50)
At 25 September 2010	425

The next scheduled reduction in the facility is to £338m from 1 January 2011 to 30 November 2011, when the facility expires.

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 are 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 foreign currency risk and interest rate risk. 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 primarily of the securitised notes issued by Mitchells & Butlers Finance plc (and associated liquidity facility) and the medium-term funding facility drawn by Mitchells & Butlers Retail (No. 2) Ltd. Further information regarding these arrangements is included in note 18. The terms of both the securitisation and the medium-term facility 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. Committed facilities outside of the securitisation are sized to ensure that the Group 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. The cash flows of the A1N and A3N securitised loan notes are calculated on the assumption that they are not expected to be refinanced on their step-up dates and are held to maturity. 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
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)
26 September 2009							
Fixed rate:							
Securitised debt[a]	(179)	(596)	(137)	(791)	(102)	(1,632)	(3,437)
Finance leases	(1)	–	(1)	–	–	–	(2)
Floating rate:							
Other borrowings	(22)	(57)	(339)	–	–	–	(418)
Other derivatives	(2)	(1)	–	–	–	–	(3)

[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 £32m (2009 £18m) of collateral was posted by a swap provider within the securitisation as at 25 September 2010. This is excluded from cash and cash equivalents in note 26, but is included within 'Bank & cash' in the credit exposure table below. 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. Exceptions are formally reported to the Treasury Committee on a four weekly basis.

The Group's credit exposure as at 25 September 2010 was:

	2010 £m	2009 £m
Bank & cash	230	95
Other receivables[a]	44	15

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

19. Financial instruments continued

Capital risk

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 compared to equity (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 bank debts (see page 85 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, 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.

Total capital at 25 September 2010 is as follows:

	2010 £m	2009 £m
Net debt (see note 26)	2,302	2,600
Total equity	881	997
Total capital	3,183	3,597

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$418.75m of Class A3N floating rate notes which form part of the securitised debt (see note 18). At issuance of the notes, the Group entered into a cross currency interest rate swap to manage the foreign currency exposure resulting from both the US$ principal and interest elements of the notes.

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 £2.3bn securitisation is 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 incurs floating rate interest based on LIBOR. Drawings against this facility are partially hedged using interest rate swaps, with a notional principal amount of £150m (see 'Cash flow hedges – unsecured borrowings' below). These swaps qualify for hedge accounting and movements in their mark-to-market values are 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 are recognised against profit or loss.

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

Sensitivity to 100bps increase in interest rates (£m)	2010 £m	2009 £m
Interest income[a]	1	1
Interest expense[b]	(2)	(3)
Derivative financial instruments (fair values)		
– Total equity[c]	128	128

[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 £131m (2009 £88m loss) on cash flow hedges was recognised directly in equity. A loss of £47m (2009 £11m gain) was removed from equity and included in the Group income statement for the period.

Cash flow hedges – securitised borrowings

At 25 September 2010, the Group held 10 (2009 10) interest rate swap contracts with a nominal value of £1,105m (2009 £1,105m), designated as a hedge of the cash flow interest rate risk of £1,105m (2009 £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 4.8938% (2009 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 £(195)m (2009 £(107)m liability).

At 25 September 2010 the Group held one (2009 one) cross currency interest rate swap contract, with a nominal value of £250m (2009 £250m), designated as a hedge of the cash flow interest rate and currency risk of the Group's A3N floating rate $418.75m borrowings. The cross currency interest rate swap is held on the balance sheet at a fair value asset of £10m (2009 £5m 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% (2009 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. The interest rate swaps are held on the balance sheet at fair market value, which is a liability of £nil (2009 £(2)m liability).

19. Financial instruments continued

Derivative financial instruments closed out in the prior period

Following a deterioration in the mark-to-market deficit of the £225m hedge retained when the property joint venture discussions with R20 were aborted in 2008, the Group acquired forward starting swaps on 11 March 2009, which fixed the economic fair value of the £225m swaps at an amount of approximately £(95)m. The ongoing illiquidity in the long-term debt markets meant that refinancing the medium-term facility into a longer term facility was unlikely to be possible in the near future and as a result of this, on 20 May 2009, the Group closed out both the £225m swaps and the forward starting swaps at their fair value of £(95)m excluding accrued interest.

The fair values of the derivative financial instruments are reflected on the balance sheet as follows. These values were measured at 25 September 2010 and may be subject to material movements in the period subsequent to the balance sheet date.

	Derivative financial instruments – Fair value				
	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	Total £m
25 September 2010					
Cash flow hedges					
Interest rate swaps	–	–	(46)	(149)	(195)
Cross currency swap	11	–	(1)	–	10
Total	11	–	(47)	(149)	(185)
26 September 2009	6	–	(50)	(60)	(104)

Fair values

Fair values of financial instruments are disclosed below:

	2010		2009	
	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	228	228	105	105
Cash collateral deposits	–	–	2	2
Other borrowings	(255)	(255)	(386)	(386)
Securitised debt (excluding interest rate and currency swaps)	(2,289)	(2,090)	(2,331)	(1,774)
Finance leases	(1)	(1)	(2)	(2)
Provisions	(6)	(6)	–	–
Derivative financial instruments held to manage the interest rate and currency profile:				
Interest rate swaps:				
– liability	(195)	(195)	(109)	(109)
Currency swaps[b]	10	10	5	5
	(2,508)	(2,309)	(2,716)	(2,159)

[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 hedge accounted.

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.

Fair value of financial instruments

The table below sets out the valuation basis of financial instruments held at fair value by the Group at 25 September 2010.

	Level 1[a] £m	Level 2[b] £m	Level 3[c] £m	Total £m
25 September 2010				
Financial assets:				
Currency swaps	–	10	–	10
Financial liabilities:				
Interest rate swaps	–	(195)	–	(195)

[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 25 September 2010 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:

	2010 £m	2009 £m
Deferred tax liability:		
Accelerated capital allowances	75	72
Rolled over and held over gains	202	202
Unrealised gains on revaluations	179	258
Depreciated non-qualifying assets	8	10
Total deferred tax liability	464	542
Deferred tax asset:		
Retirement benefit obligations (note 7)	82	36
Share-based payments	7	5
Derivative financial instruments	54	32
Short-term temporary differences	1	3
Non-trade tax losses	5	11
Total deferred tax asset	149	87
Deferred tax in the income statement:		
Accelerated capital allowances	3	(21)
Retirement benefit obligations	8	19
Rolled over and held over gains	(1)	(5)
Share-based payments	–	1
Short-term temporary differences	2	2
Depreciated non-qualifying assets	–	–
Derivative financial instruments	–	11
Unrealised losses on revaluations	(76)	(28)
Non-trade tax losses	6	15
Total deferred tax credit in the income statement (note 10)	(58)	(6)

20. Deferred tax continued

Unrecognised tax losses

At the balance sheet date the Group has unused losses of £13m (2009 £17m) available for offset against future profits.

A deferred tax asset has not been recognised on tax losses with a value of £4m (2009 £5m) 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.

Tax consequences arising from the payment of dividends

There are no tax consequences attaching to the payment of dividends by the Group to its shareholders.

21. Provisions

	Property Leases £m
At 26 September 2009	–
Additions	6
Utilised	–
Amount released in the year	–
At 25 September 2010	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

	2010		2009	
	Number of shares	£m	Number of shares	£m
Authorised				
Ordinary shares of 8 $^{13}/_{24}$p each	1,181,130,148	101	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	407,404,004	35	404,210,379	34
Share capital issued	1,549,032	–	3,193,625	1
At end of the financial period	408,953,036	35	407,404,004	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 Trust

The Share Incentive Plan ('SIP') Trust was established in 2003 to purchase shares on behalf of employees participating in the Company's Share Incentive Plan. 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 25 September 2010, the trustees, Equiniti Share Plan Trustees Limited, held 1,423,682 (2009 1,314,605) shares in the Company. Of these shares, 282,835 (2009 219,899) shares are unconditionally available to employees, 141,100 (2009 222,649) shares have been conditionally awarded to employees, 980,974 (2009 845,084) shares have been awarded to employees but are still required to be held within the SIP Trust and the remaining 18,773 (2009 26,973) 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 Executive Share Option Plan, Performance Restricted Share Plan, Short-Term Deferred Incentive Plan, 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 25 September 2010, the trustees, Mourant ECS Trustees (Jersey) Ltd, were holding 1,992,438 (2009 14,995) shares in the Company.

24. Equity reserves
Information relates to the Group statement of changes in equity on page 59.

The Group's main operating subsidiary, Mitchells & Butlers Retail Ltd, had retained earnings under UK GAAP of £76m at 25 September 2010 (2009 £210m). 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 and by the employee share trusts.

During the financial period, the Company released no (2009 57,762) shares from treasury to employees on the exercise of share options for a total consideration of £nil (2009 £0.1m). No shares were acquired for treasury in either the current or prior period. The 429 shares held in treasury at 25 September 2010 had a market value of £0.0m (26 September 2009 429 shares held had a market value of £0.0m). The aggregate nominal value of the treasury shares held at 25 September 2010 was £0.0m (2009 £0.0m).

During the financial period, the employee share trusts acquired 2,032,000 and subscribed for 593,860 (2009 acquired nil, subscribed for 1,499,018) shares at a cost of £6.3m (2009 £0.1m), released 539,340 (2009 1,276,788) shares to employees on the exercise of options and other share awards for a total consideration of £0.0m (2009 £0.0m). The 3,416,120 shares held by the trusts at 25 September 2010 had a market value of £10.3m (26 September 2009 1,329,600 shares held had a market value of £3.5m). 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 25 September 2010 was £50m (2009 £50m). This arose in respect of acquisitions completed prior to 30 September 1998.

25. Cash flow from operations

	2010 52 weeks £m	2009 52 weeks £m
Operating profit	33	213
Add back: operating exceptional items	289	87
Operating profit before exceptional items	322	300
Add back:		
Depreciation of property, plant and equipment	124	124
Amortisation of intangibles (computer software)	2	3
Amortisation of lease premiums	1	1
Cost charged in respect of share-based payments	4	3
Defined benefit pension cost less regular cash contributions	(4)	(5)
Operating cash flow before exceptional items, movements in working capital and additional pension contributions	449	426
Movements in working capital and pension contributions:		
Decrease in inventories	9	1
(Increase)/decrease in trade and other receivables	(4)	31
Increase/(decrease) in trade and other payables	29	(7)
Increase/(decrease) in provisions	6	(1)
Additional pension contributions (note 7)	(32)	(24)
Cash flow from operations	457	426

26. Analysis of net debt

	2010 £m	2009 £m
Cash and cash equivalents (see below)	228	105
Cash collateral deposits	–	2
Securitised debt (note 18)	(2,289)	(2,331)
Other borrowings (note 18)	(255)	(386)
Derivatives hedging balance sheet debt[a] (note 18)	15	12
Finance leases (note 18)	(1)	(2)
	(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 £226m (2009 £104m), cash deposits with an original maturity of three months or less of £1m (2009 £1m) and cash transferred to assets held for sale of £1m (2009 £nil).

Cash collateral deposits

Cash collateral deposits in the prior period represented monies held in escrow.

27. Movement in net debt

	2010 52 weeks £m	2009 52 weeks £m
Net increase/(decrease) in cash and cash equivalents	123	(24)
Add back cash flows in respect of other components of net debt:		
Transfers from cash collateral deposits	(2)	–
Repayment of principal in respect of securitised debt	46	45
Repayment of principal in respect of other borrowings	136	120
Decrease in net debt arising from cash flows ('Net cash flow' per note 28)	303	141
Capitalised debt issue costs net of accrued interest	(5)	(6)
Decrease in net debt	298	135
Opening net debt	(2,600)	(2,735)
Closing net debt (note 26)	(2,302)	(2,600)

28. Net cash flow

	2010 52 weeks £m	2009 52 weeks £m
Operating profit before exceptional items	322	300
Depreciation and amortisation	127	128
EBITDA before exceptional items[a]	449	428
Working capital movement	40	24
Other non-cash items	–	(2)
Additional pension contributions (note 7)	(32)	(24)
Cash flow from operations	457	426
Net capital expenditure[b]	(8)	(57)
Cash flow from operations after net capital	449	369
Interest paid	(147)	(161)
Interest received	–	1
Tax (paid)/received	(8)	21
Exceptional interest on tax credits	–	4
VAT refund received including interest	12	–
Issue of ordinary share capital	3	4
Purchase of own shares	(6)	–
Expenditure associated with refinancing	–	(2)
Derivative financial instruments closure costs	–	(95)
Net cash flow (note 27)	303	141

[a] Earnings before interest, tax, depreciation, amortisation and exceptional items
[b] Comprises purchases of property, plant and equipment 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:

	2010 £m	2009 £m
Due within one year	36	36
Between one and five years	136	136
After five years	483	550
	655	722

The future minimum rentals expected to be received under non-cancellable subleases as at 25 September 2010 amounted to £20m (2009 £27m).

Operating lease receivables – Group as lessor

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

	2010 £m	2009 £m
Due within one year	6	7
Between one and five years	20	23
After five years	24	41
	50	71

Lease income recognised in the year was as follows:

	2010 52 weeks £m	2009 52 weeks £m
Standard lease income	9	10

Finance lease commitments – Group as lessee

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

	2010 £m	2009 £m
Due within one year	–	1
Between one and five years	1	1
	1	2

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

	2010 £m	2009 £m
Contracts placed for expenditure on property, plant and equipment not provided for in the financial statements	24	18

30. 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 Operating and financial review on pages 5 to 25. 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 plus the medium-term borrowing facility that is due for renewal on 30 November 2011.

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.

31. 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.

32. 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.

32. Related party disclosures continued

Compensation of key management personnel of the Group:

	2010 £m	2009 £m
Short-term employee benefits	4	3
Post-employment benefits	1	2
Share-based payments	1	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 on pages 106 to 107, note 4 of the Company accounts.

Compensation of Non-Executive Directors relating to salaries received during the current period in advance of services to be provided in the next period is detailed in the Report on Directors' remuneration on page 48.

33. Events after the balance sheet date

On 17 September 2010 the Group entered into an agreement to acquire 22 Ha Ha Bar & Grill sites from Bay Restaurant Group for £19.5m. The acquisition completed on 3 October 2010. As such, the necessary valuations and other calculations have not been finalised and therefore the fair values of the assets acquired (including identifiable intangible assets), liabilities, contingent liabilities assumed and goodwill arising as part of the business combination have not yet been determined.

On 14 November 2010 the Group completed the sale of 333 pubs to the Stonegate Pub Company Ltd. At 25 September 2010 the pubs were held for sale in a disposal group and the sale was contingent on approval of the Group's shareholders, which was given at a general meeting on 26 October 2010. The Group received consideration of £363m and incurred costs of £6m in respect of the pubs disposed. The net book value of the pubs disposed was £357m. The Group has received separate consideration in respect of the other assets included in the sale, which have a book value of £7m as at 25 September 2010. The Group will continue to operate the pubs on Stonegate's behalf under a Transitional Services Agreement which takes effect on 14 November 2010 and will continue for a maximum period of 39 weeks.

Of the four freehold Hollywood Bowls included in assets held for sale as at 25 September 2010, three have completed prior to 23 November 2010, generating cash proceeds of £12m compared to a book value of £11m.

Five year review

Income statement information

	2010 52 weeks £m	2009 52 weeks £m	2008 52 weeks £m	2007 52 weeks £m	2006 52 weeks £m
Revenue	1,980	1,958	1,908	1,894	1,720
Operating profit before exceptional items	322	300	343	343	309
Operating exceptional items	(289)	(87)	(212)	(34)	16
Total operating profit	33	213	131	309	325
Interest on net debt	(153)	(166)	(167)	(147)	(109)
Exceptional interest charge	–	(51)	(205)	(221)	(4)
Net finance (charge)/income on pensions	(7)	(6)	3	11	8
(Loss)/profit before taxation	(127)	(10)	(238)	(48)	220
Taxation credit/(charge)	43	14	62	38	(25)
(Loss)/profit for the financial year	(84)	4	(176)	(10)	195
(Loss)/earnings per share					
Basic	(20.6)p	1.0p	(43.7)p	(2.5)p	39.7p
Diluted	(20.6)p	1.0p	(43.7)p	(2.5)p	38.8p
Adjusted[a]	29.7p	23.6p	31.0p	33.6p	28.1p
Dividends paid and proposed[b]					
Normal dividends (£m)	–	–	18	57	53
Special dividends (£m)	–	–	–	486	–
Normal dividends per share	–	–	4.55p	14.25p	12.25p

[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.

Five year review

Balance sheet information

	2010 £m	2009 £m	2008 £m	2007 £m	2006 restated[a] £m
Goodwill and other intangible assets	1	1	3	17	22
Property, plant and equipment	3,693	4,461	4,545	5,030	3,867
Lease premiums	8	10	10	11	13
Total non-current operating assets	3,702	4,472	4,558	5,058	3,902
Inventories	25	38	39	38	42
Operating receivables	64	39	79	68	80
Assets held for sale	433	19	114	6	88
Operating payables	(314)	(270)	(276)	(240)	(243)
Net current operating assets/(liabilities)	208	(174)	(44)	(128)	(33)
Total operating assets less current operating liabilities	3,910	4,298	4,514	4,930	3,869
Provisions	(6)	–	(1)	(1)	(3)
Net operating assets	3,904	4,298	4,513	4,929	3,866
External net debt	(2,302)	(2,600)	(2,735)	(2,479)	(2,067)
Derivative financial instruments	(200)	(116)	(58)	(188)	(36)
Corporate taxation	(8)	(1)	3	(18)	(22)
Deferred taxation	(315)	(455)	(526)	(648)	(426)
Pension liabilities	(199)	(130)	(23)	(18)	(99)
Balances relating to exceptional items	–	–	–	–	(3)
Non-operating receivables/(payables)	1	1	1	(2)	(4)
Net assets	881	997	1,175	1,576	1,209

[a] Restated in respect of a prior year adjustment (see note 2 of the Annual report and accounts 2007)

Five year review

Cash flow information

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Operating profit before exceptional items	322	300	343	343	309
Depreciation and amortisation	127	128	134	129	121
EBITDA[a]	449	428	477	472	430
Other non-cash items	–	(2)	2	11	11
Working capital movement	40	24	31	8	9
Additional pension contributions	(32)	(24)	(24)	(40)	(20)
Net cash flow from operations[a]	457	426	486	451	430
Net capital expenditure	(8)	(57)	(111)	(99)	(583)
Operating cash flow after capital expenditure[a]	449	369	375	352	(153)
Net interest paid	(147)	(160)	(164)	(145)	(107)
Tax (paid)/received	(8)	21	(4)	(33)	(48)
Exceptional interest on tax credits	–	4	–	–	–
VAT refund received including interest	12	–	–	–	–
Normal dividends paid	–	–	(58)	(52)	(56)
Special dividends paid	–	–	–	(486)	–
Issue of ordinary shares	3	4	–	–	–
Purchase of own shares	(6)	–	(5)	(46)	(76)
Proceeds on release of own shares held	–	–	3	11	12
Expenditure associated with refinancing	–	(2)	(11)	(4)	(10)
Derivative financial instruments closure costs	–	(95)	(386)	–	–
Defence costs	–	–	–	–	(4)
Corporate restructuring costs	–	–	(3)	(4)	–
Integration costs paid	–	–	–	(4)	–
Strategic review costs	–	–	(12)	–	–
Net cash flow	303	141	(265)	(411)	(442)

[a] Before exceptional items

Mitchells & Butlers plc – parent company
Balance sheet

25 September 2010

	Notes	2010 £m	2009 £m
Fixed assets			
Investments	5	1,719	1,721
Current assets			
Debtors: amounts falling due within one year	6	304	220
Debtors: amounts falling due in more than one year	6	1	11
Investments		1	1
		306	232
Creditors: amounts falling due within one year	7	(1,340)	(1,340)
Net current liabilities		(1,034)	(1,108)
Net assets before net pension liabilities		685	613
Net pension liabilities	2	(104)	(94)
Net assets		581	519
Capital and reserves			
Called up share capital	8,9	35	35
Share premium account	9	20	17
Capital redemption reserve	9	3	3
Profit and loss account	9	523	464
Equity shareholders' funds		581	519

Signed on behalf of the Board

T C Jones
Director
22 November 2010

A P Fowle
Director
22 November 2010

The accounting policies and the notes on pages 104 to 110 form an integral part of these financial statements.

Independent auditors' report to the members of Mitchells & Butlers plc

We have audited the parent company financial statements of Mitchells & Butlers plc for the year ended 25 September 2010, which comprise the parent company balance sheet and the related notes 1 to 12. 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 auditors' 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 auditors

As explained more fully in the Directors' responsibilities statement set out on page 30, 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 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 (APB'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.

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 25 September 2010;
- 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 matters

We have reported separately on the Group financial statements of Mitchells & Butlers plc for the year ended 25 September 2010.

Nigel Meredith
(Senior statutory auditor)
For and on behalf of Ernst & Young LLP
Statutory Auditor
Birmingham
22 November 2010

Notes to the parent company financial statements

1. Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention. The financial statements comply with applicable accounting standards in the United Kingdom.

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).

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. The Group has taken advantage of the transitional provisions of FRS 20 in respect of equity-settled awards so as to apply FRS 20 only to those equity-settled awards granted after 7 November 2002 that had not vested before 1 January 2005.

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 has taken advantage of Section 408 of the Companies Act 2006 not to present its own profit and loss account and notes. The Company recorded a profit after tax of £93m (2009 loss of £47m), less dividends of £nil (2009 £nil).

Auditors' remuneration for audit services to the Company was £22,000 (2009 £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).

The consolidated financial statements of Mitchells & Butlers plc are required to comply with the Companies (Disclosure of Auditor and Liability Limitation Agreements Remuneration) Regulations 2008.

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 amortisation, 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 (2009 £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 = €1.17 (2009 £1 = €1.09).

2. Pensions
The net pension liabilities of £(104)m (2009 £(94)m), are shown net of a deferred tax asset of £39m (2009 £36m).

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 note 7 on pages 72 to 76 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, with the exception of specific amounts in relation to the application of IFRIC 14 which do not apply to the Company, which are detailed on page 74.

3. Employees and Directors

	2010 52 weeks Number	2009 52 weeks Number
Average number of employees, including part-time employees	9	8

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 £1m (2009 £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 67 to 69.

The tables on pages 70 to 71 set out awards and options granted by the Company during 2010 and 2009. 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 69.

Movements in the awards and options over the Company's shares outstanding under these schemes for the years ended 25 September 2010 and 26 September 2009 in relation to the employees of the Mitchells & Butlers Group are shown on pages 70 and 71.

Movements in the awards and options outstanding under these schemes, in respect of the employees of the Company, for the periods ended 25 September 2010 and 26 September 2009 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 27 September 2008	572	3,755	20
Granted	63	2,194	4
Exercised	(163)	(539)	(7)
Lapsed	(268)	(1,842)	(1)
Outstanding at 26 September 2009	204	3,568	16
Transfers in from other group companies	–	918	7
Granted	9[a]	1,194	5
Exercised	(88)	(103)	(5)
Lapsed	(86)	(1,700)	(3)
Outstanding at 25 September 2010	39	3,877	20
Fair value of options granted during the period (pence)[b]			
At 25 September 2010	–[a]	151.6[c]	274.0
At 26 September 2009	152.0	83.4[c]	248.0
Weighted average remaining contract life (years)			
At 25 September 2010	1.2	3.1	–[d]
At 26 September 2009	0.6	3.5	–[d]

[a] There was no grant under the Short-Term Deferred Incentive Plan during the period 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 Performance Restricted Share Plan (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 27 September 2008	3,363	281.4	32	217.0	795	264.9
Granted	–	–	5	196.0	–	–
Exercised	(637)	246.9	(19)	169.0	(74)	269.2
Lapsed	(950)	294.8	(5)	259.0	(482)	265.6
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	–	–
Options exercisable						
At 25 September 2010	1,027	315.1	–	–	–	–
At 26 September 2009	1,776	286.6	–	–	795	264.9
Fair value of options granted during the period (pence)[a]						
At 25 September 2010		–		71.4		–
At 26 September 2009		–		83.4[b]		–
Range of prices (pence) of options outstanding:						
At 25 September 2010		252.5 – 326.1		196.0 – 259.0		–
At 26 September 2009		219.0 – 330.5		169.0 – 401.0		259.7 – 266.7

[a] Fair value is based on date of grant
[b] The 2009 fair value has been restated for the effect of the amendment to IFRS 2 'Share-based Payment' which clarified the terms 'vesting conditions' and 'cancellations'

The weighted average share price during the period was 286.3p (2009 221.5p).

Summarised information about options over the Company's shares outstanding at 25 September 2010 under the share option schemes, in respect of the employees of the Mitchells & Butlers Group, is shown on page 72.

Summarised information about options outstanding, in respect of the employees of the Company, at 25 September 2010 under the share option schemes is as follows:

	Options outstanding			Options exercisable		
Range of exercise prices (pence)	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]	3,877	3.1	–[a]	8	1.2	–[a]
Executive Share Option Plan						
252.5	153	3.7	252.5	153	3.7	252.5
326.1	874	4.7	326.1	874	4.7	326.1
	1,027	4.6	315.1	1,027	4.6	315.1
Sharesave Plan						
259.0	6	3.3	259.0	–	–	–
196.0	13	3.5	196.0	–	–	–
257.0	6	5.3	257.0	–	–	–
	25	3.9	226.7	–	–	–

[a] The exercise price relating to the Performance Restricted Share Plan is £1 per participating employee per exercise

5. Fixed asset investments

	Shares in group undertakings £m
Cost	
At 26 September 2009	2,181
Exchange differences	(2)
At 25 September 2010	2,179
Provision	
At 26 September 2009	460
Provided during year	–
At 25 September 2010	460
Net book value	
At 25 September 2010	1,719
At 26 September 2009	1,721

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

	2010 £m	2009 £m
Amounts owed by group undertakings	296	211
Group relief receivable	8	9
Deferred tax asset	1	11
	305	231

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

	2010 £m	2009 £m
Bank overdraft	26	16
Other borrowings	–	10
Amounts owed to group undertakings	1,311	1,308
Other creditors	3	6
	1,340	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 on page 92 to the consolidated financial statements.

9. Capital and reserves

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Profit and loss account		
				Own shares £m	Other £m	Total £m
At 26 September 2009	35	17	3	(2)	466	464
Share capital issued	–	3	–	–	–	–
Purchase of own shares	–	–	–	(6)	–	(6)
Credit in respect of employee share schemes	–	–	–	–	4	4
Actuarial loss on pension schemes	–	–	–	–	(43)	(43)
Deferred tax relating to actuarial loss	–	–	–	–	11	11
Profit after taxation	–	–	–	–	93	93
At 25 September 2010	35	20	3	(8)	531	523

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 on page 93 to the consolidated financial statements.

10. Deferred tax asset

	£m
At 26 September 2009	47
Charged to profit and loss account	(18)
Credited to profit and loss account reserves	11
At 25 September 2010	40

Analysed as tax on timing differences related to:

	2010 £m	2009 £m
Share-based payments	1	1
Pensions[a]	39	36
Non-trade deficits	–	10
Deferred tax asset	40	47

[a] 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 page 78 to the consolidated financial statements.

11. Related party transactions

The Company is not required to provide related party disclosures as it is exempt from providing details of transactions with wholly owned subsidiaries.

12. Contingent liabilities

The Company is a guarantor of the obligations of Mitchells & Butlers Retail (No. 2) Ltd in respect of the medium-term loan facility dated 24 July 2008 with final maturity of 30 November 2011 and the interest rate swaps held by Mitchells & Butlers Retail (No. 2) Ltd against £150m of the unsecured facility (see 'Cash flow hedges – unsecured borrowings' on page 89). As at 25 September 2010 Mitchells & Butlers Retail (No. 2) Ltd had drawn an amount of £255m (net of deferred issue costs) against the facility (2009 £376m (net of deferred issue costs)).

Shareholder information

Electronic communication
At the 2008 Annual General Meeting the Company passed a resolution allowing it to use its website as its main method of communication with shareholders. Consultation cards were sent to shareholders in June 2008 and December 2009 enabling them to choose to:

- receive notification by email when shareholder documentation is available on the website; or
- continue to receive shareholder documentation in hard copy.

Shareholders who did not respond were deemed, in accordance with the Companies Act 2006, to have agreed to receive shareholder documentation via the Mitchells & Butlers plc website. As a result we have achieved a significant reduction in printing volume, benefiting both the environment and the Company from a cost perspective. The savings made continue to be invested in improving our website. We would encourage you to view our website www.mbplc.com to explore the advantages of our communicating with you online rather than in paper form. Whilst hard copy communications continue to be available to those shareholders actively requesting them, we intend to focus on our online environment where we can keep you instantly updated at regular intervals throughout the year. For instance, did you know that you can sign up to receive e-alerts on our website as well as seeing a wealth of other information about our brands including vouchers for the latest offers?

We are working to encourage as many shareholders as possible to actively sign up to receive electronic communications. Please register online at www.mbplc.com/ecomms if you would prefer to receive an email notifying you of the publication of shareholder communications on our website; this will increase the speed with which you receive information and will also help us to reduce our impact on the environment. If you would like to receive hard copy communications please contact the Registrar whose details are provided overleaf.

Amalgamating your share accounts
If you received more than one copy of this report, it may be because the Registrar has more than one record of shareholdings in your name. To ensure that you do not receive duplicate mailings in future, you can have all your shares amalgamated into one account by contacting the Registrar at the address overleaf.

Dividend mandates
Shareholders who wish dividends to be paid directly into a bank/building society account may contact the Registrar for a dividend mandate form or register at www.shareview.co.uk. This method of payment removes the risk of delay or loss of dividend cheques in the post and ensures that your account is credited on the due date.

Dividend reinvestment plan ('DRIP')
Shareholders can choose to reinvest dividends received to purchase further shares in the Company through a DRIP. A DRIP application form is available from the Registrar or at www.mbplc.com/dividends

Low-cost share dealing service
A simple, low cost postal facility for buying and selling ordinary shares in Mitchells & Butlers plc is available through the Company's Registrar. Information may be obtained from the Registrar at the address overleaf or at www.shareview.co.uk/dealing

Individual savings accounts ('ISAs')
ISAs in Mitchells & Butlers plc ordinary shares are available through the Registrar; further information may be obtained from the Registrar's address overleaf or at www.shareview.co.uk/isa

Share price information
The latest Mitchells & Butlers plc share price is available at the following web link www.mbplc.com/shareprice, in the financial press or on Ceefax and Teletext and also on the Financial Times Cityline Service, telephone +44 (0)9058 171690 (calls charged at 75p per minute from a BT landline).

ShareGift
Shareholders with a small number of shares, the value of which make it uneconomical to sell, may wish to consider donating them to the charity ShareGift (Registered Charity Number 1052686). Find out more about ShareGift at www.sharegift.org or by telephoning +44 (0)20 7930 3737.

Shareview
Shareholders can access information about their shares and other investments online by registering with Shareview (www.shareview.co.uk). Registration is free; shareholders will need their shareholder reference number which is shown on their form of proxy and share certificate. By registering for this service shareholders will:

- be able to manage their shareholding quickly and securely online;
- help reduce paper, print and postage costs; and
- help the environment.

Once registered, whenever shareholder documents are available shareholders will be sent a link to the appropriate website, where the documents will be available to view or download. Receiving documents online does not affect shareholders' rights in any way.

Voting electronically
As an alternative to completing a hard copy Form of Proxy, shareholders can appoint a proxy electronically by visiting www.sharevote.co.uk. You will need your Voting I.D., Task I.D. and Shareholder Reference Number (this is the series of numbers printed under your name on the Form of Proxy). Alternatively, if you have already registered with Equiniti's online portfolio service, Shareview, you can submit your Form of Proxy at www.shareview.co.uk. Full instructions are given on both websites. The proxy appointment and instructions should reach Equiniti Registrars not less than 48 hours before the time appointed for the holding of the AGM or any adjournment thereof. You are advised to read the terms and conditions of use carefully. Any electronic communication found to contain a computer virus will not be accepted.

Unsolicited telephone calls and correspondence
Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. These are typically from overseas based 'brokers' who target UK shareholders, offering to sell them what often turns out to be worthless or high risk shares. These operations are so called 'boiler room' frauds. If shareholders receive unsolicited investment advice, they can check if the person or organisation is properly authorised by the Financial Services Authority ('FSA') at www.fsa.gov.uk/register/home.do. Details of any share dealing facilities that the Company endorses will be included in Company mailings or on our website.

Corporate Social Responsibility Review
The Mitchells & Butlers Corporate Social Responsibility Review 2010 is available on the Company's website and can be downloaded directly by visiting www.mbplc.com/csrreview. If you do not have access to the internet and would like a printed copy, please write to the Communications Department at the Company's registered office shown opposite.

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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.

Stockbrokers
JPMorgan Cazenove Limited
Nomura International plc

Auditors
Ernst & Young LLP

Investment bankers
UBS Inc.

Solicitors
Freshfields Bruckhaus Deringer LLP

Key dates

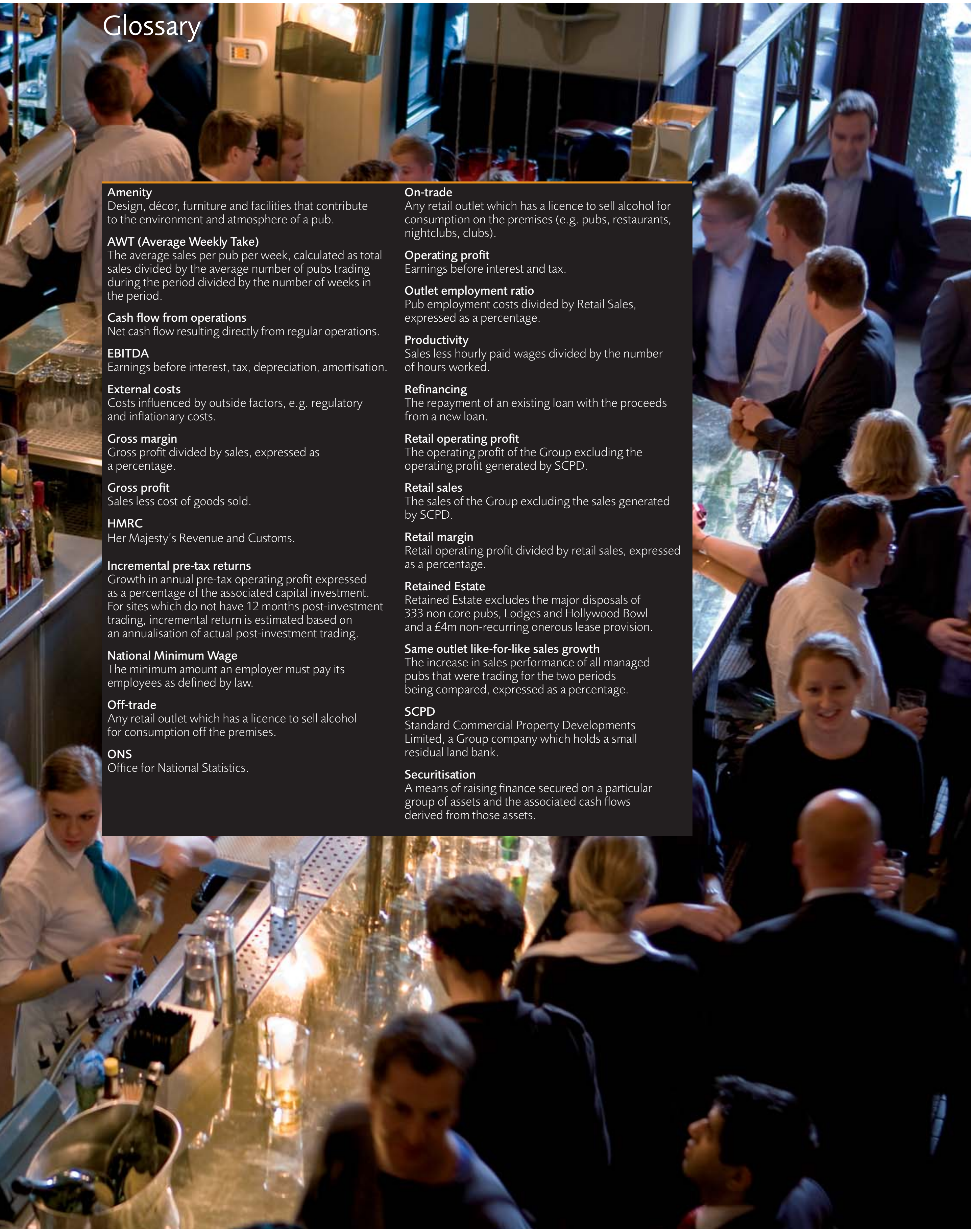
These dates are indicative only and may be subject to change	
2010 final results announcement	23 November 2010
Annual General Meeting	27 January 2011
Interim management statement	January 2011
Announcement of half-year results	May 2011
Interim management statement	July 2011
Pre-close trading update	September 2011
2011 final results announcement	November 2011

Design and production CarnegieOrr
Print Royle Print

The paper used in this Report is derived from sustainable sources

CarbonNeutral® printing company

Glossary



Amenity
Design, décor, furniture and facilities that contribute to the environment and atmosphere of a pub.

AWT (Average Weekly Take)
The average sales per pub per week, calculated as total sales divided by the average number of pubs 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.

EBITDA
Earnings before interest, tax, depreciation, amortisation.

External costs
Costs influenced by outside factors, e.g. regulatory and inflationary costs.

Gross margin
Gross profit divided by sales, expressed as a percentage.

Gross profit
Sales less cost of goods sold.

HMRC
Her Majesty's Revenue and Customs.

Incremental pre-tax returns
Growth in annual pre-tax operating profit expressed as a percentage of the associated capital investment. For sites which do not have 12 months post-investment trading, incremental return is estimated based on an annualisation of actual post-investment trading.

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.

Outlet employment ratio
Pub employment costs divided by Retail Sales, expressed as a percentage.

Productivity
Sales less hourly paid wages divided by the number of hours worked.

Refinancing
The repayment of an existing loan with the proceeds from a new loan.

Retail operating profit
The operating profit of the Group excluding the operating profit generated by SCPD.

Retail sales
The sales of the Group excluding the sales generated by SCPD.

Retail margin
Retail operating profit divided by retail sales, expressed as a percentage.

Retained Estate
Retained Estate excludes the major disposals of 333 non core pubs, Lodges and Hollywood Bowl and a £4m non-recurring onerous lease provision.

Same outlet like-for-like sales growth
The increase in sales performance of all managed pubs that were trading for the two periods being compared, expressed as a percentage.

SCPD
Standard Commercial Property Developments Limited, a Group company which holds 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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www.harvester.co.uk

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www.vintageinn.co.uk

Toby Carvery
www.tobycarvery.co.uk

Premium Country Dining Group
A collection of attractive individual pubs each with their own website, for example www.saxonmill.co.uk

Sizzling Pub Co.
www.sizzlingpubs.co.uk

Crown Carveries
www.crowncarveries.co.uk

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